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ROYAL COMMISSION ON TAXATION

Hearing held in Court Room No. 4, Court House, Regina, Saskatchewan, on the 23rd day of August, 1963.

COMMISSION:

MR. KENNETH LeM. CARTER -- Chairman

MR. J. HARVEY PERRY

MR. A. EMILE BEAUVAIS

MR. DONALD G. GRANT

MRS. S.M. MILNE

MR. CHARLES E.S. WALLS

LEGAL ADVISER:

MR. J.L. STEWART, Q.C.

RESEARCH DIRECTOR:

PROF. D.G. HARTLE

SECRETARY:

MR. G.L. BENNETT

ROYAL COMMISSION ON TAXATION

HEARINGS HELD AT THE CITY OF REGINA, SASKATCHEWAN

August 23, 1963

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--- On commencing at 9.30 a.m.

THE CHAIRMAN: Mr. Secretary, I think it is now 9.30 and we might start.

THE SECRETARY: Mr. Chairman, Commissioners, the first brief this morning in Regina is being presented by the Saskatchewan Chamber of Mines. Representing the Chamber and present here to speak to the brief are Mr. M.A. Upham, who is Vice-President, and Mr. Hogg, who is a Director. Mr. Hogg will speak to the brief which I now enter into the record as Exhibit 168.

--- EXHIBIT NO. 168: Submission of the Saskatchewan Chamber of Mines.

SUBMISSION OF THE SASKATCHEWAN CHAMBER OF MINES

Appearances: Mr. M.A. Upham
Mr. C.A.L. Hogg

THE CHAIRMAN: Thank you, Mr. Secretary. Good morning, Mr. Upham and Mr. Hogg. We are glad to see you today and we are delighted to be in Regina in this beautiful room. You are representing the Saskatchewan Chamber of Mines and we have read your submission with considerable interest. We would like to address certain questions to you, but before doing so, is there anything you would like to add to what is before us here?

MR. HOGG: Mr. Chairman, I am Mr. Hogg and Mr. Upham is on my left. I am consultant geologist in Regina and my work involves mostly oil and gas potash explorations and explorations of the soft rock area. I came from the mining industry. I worked for some years in Ontario and Quebec in mines and mining exploration.

A3 I have had experience in minerals and natural resources administration with the Provincial Government in Saskatchewan. I would like to introduce Mr. Upham; he is General Manager of the International and Mineral Company potash mines and operations in Saskatchewan at Esterhazy.

On behalf of the Chamber may I say we appreciate this opportunity of bringing our views before you. I have some comments, additional comments, towards the brief. They are actually in elaboration of some of the points that have been already raised. I could go over those now briefly or wait for questioning on the brief.

THE CHAIRMAN: Why don't we go ahead with our questions and should we overlook any of the points you have got there, you raise them after you get through, if you will. As we take care of them you might check them off so we don't duplicate them. Your association is concerned mostly with prospectors, I think you indicate to us. You have 90 members and of those not very many are producing mines because there are, I think you say, two producing mines operating in Saskatchewan. Some will be developing companies, I would assume, and some are individuals; is that correct?

MR. HOGG: The producing mines are the Eldorado mine at Uranium City; that is a Federal Government corporation producing uranium. There is also at Uranium City an area on Lake Athabaska, Gunnar mines. Gunnar mines will be closing their operation this Fall and early in 1964. Then there is a metal mine on the border of Saskatchewan and Manitoba; that is the Hudson Bay Mining and Smelting Company. They have a satellite mine about 15 miles within

A4 the border of Saskatchewan called Coronation. They are also developing a small copper mine called Flexar near Coronation, about 15 miles from Flin Flon.

That constitutes the metal mining in North Saskatchewan. Then, in south Saskatchewan the potash companies are members of the Chamber Of Mines and there is Mr. Upham's International operation at Esterhazy and the Potash Company of America operation at Saskatoon which produced for a short period and is now undergoing repairs and will be producing, we expect, in the near future.

COMMISSIONER WALLS: I notice that in your brief it mostly deals with the pre-Cambrian shield. These potash mines and other mines you are mentioning now, are they within the pre-Cambrian shield?

MR. HOGG: No, they are not, but as they are mining operations in the ordinary sense, in the same way as metal mines, they have attached themselves to the Saskatchewan Chamber of Mines as a free trade organization.

THE CHAIRMAN: Who are the balance of your members?

MR. HOGG: The balance of the members are individual prospectors and consultants in the mineral field, supplying organizations - organizations that supply equipment to the metal mining industry, and also a considerable number of mining companies that are not active in Saskatchewan, but have seen fit to join the organization. Those are mainly based in Ontario and they constitute producing operations in other provinces and exploration companies.

THE CHAIRMAN: Thank you. Just say a word, if you would, about the rights attaching to miners' licences,

A5 and also what one attains when he stakes a claim. I have a general idea; could you be a little more specific? A miner's licence is, I presume, a right to prospect.

MR. HOGG: A miner's licence is actually, in common terminology, a prospecting licence, and allows you to stake claims or claim blocks in Saskatchewan and it gives you the right to explore on the land. The disposition, in terms of a claim, does not actually give you the right to produce, except in a limited way. After you have done your duty under the claim disposition which requires certains dollars worth of expenditures - about $100 per claim each year - after you have done that for a period of years then you may take your claim to lease. That gives you, then, the right to produce.

COMMISSIONER WALLS: A claim is 40 acres, I believe?

MR. HOGG: Yes, a claim is 40 acres.

COMMISSIONER WALLS: Is there a limitation on how many claims a miner can take in one year?

MR. HOGG: There is no limitation in Saskatchewan in the number of claims that a prospector under his licence can stake.

COMMISSIONER WALLS: I see.

THE CHAIRMAN: I presume the requirements as to the expenditure on the claim is to maintain it in good standing?

MR. HOGG: To maintain it in good standing, $100 per year per claim.

COMMISSIONER WALLS: On page 4 you deal with the fact that based on statistics of 1954 there were 77 new

A6 ore bodies, that had been discovered over the previous 10 years, and that 47% of those were discovered by individual prospectors doing basic prospecting. As I figure it out, it doesn't look like a very good return, because you have, in Saskatchewan, between two and three hundred prospectors, and I would presume that would mean there were at least three or four thousand throughout Canada. These statistics for Canada, and breaking it down, 47% of 77 new ore bodies for 10 years would be 3.5 ore bodies discovered each year on an average over 10 years; is that right?

MR. HOGG: Yes, that is right.

COMMISSIONER WALLS: So your relationship to the amounts of prospectors is comparatively small, and am I not right that discovery of an ore body does not necessarily result in the formation of a mine?

MR. HOGG: Well, in the terminology of ore, generally, when they speak of it as an ore body, it is of commercial grade. If it is spoken of as a mineral occurrence, then its commercial possibilities are still questionable. So, I would interpret these statistics as meaning that the ore body is a commercial body and doesn't include the innumerable small mineral occurrences that have also been found. That doesn't include them.

COMMISSIONER WALLS: I suppose, actually, if a claim was brought into production it could contain two or three different mines?

MR. HOGG: Well, you might find two mines on a mineral property composed of a considerable number of claims, but it is rare.

COMMISSIONER WALLS: This statistic that you

A7 give us of 77 ore bodies in Canada; as I say it is 10 years old and deals with the previous ten years. Have you any idea of how many ore bodies were discovered in the past 10 years within the pre-Cambrian shield in Saskatchewan?

2 MR. HOGG: Recently, at least this Spring, there was a paper given by J.R. Bradfield to the Prospectors and Developers' Association on March 13th in Toronto. He has some statistics on your question and I might just refer to that, if I could. I might quote from page 6 of his paper. He gives some statistics mainly based on the Dominion Bureau of Statistics. He says:

> "One striking fact emerges in the period covered. We haven't averaged much better than one-and-one-half discoveries per year that have the earmarks of being good, profitable producing mines, if we take out the uranium mines as being abnormal."

His period covered the 10 years from 1950 to 1960. His statistics refer to the 1950's. I might go on and quote:

> "We are now, however, spending in aggregate close to $45 million a year."

I might comment there he means the amount of exploration, preliminary exploration for mine prospecting, geophysical work, and diamond drilling; the kind of work that we are covering in our brief.

THE CHAIRMAN: When he says we achieve one to one-and-a-half discoveries as being good, profitable

A8 producing mines, does that mean all of Canada?

MR. HOGG: He means all of Canada.

COMMISSIONER WALLS: What was the last figure you quoted?

MR. HOGG: "We are now, however, spending in aggregate close to $45 million a year, perhaps $25 million per new mine." "One might question if the average mine finds during the period will have a gross production of over $25 million, let alone pay dividends commensurate with such investment." Your interpretation, I would say, is not quite - it is a little generous, yes, but I think it is within this ball park we are talking about, and these figures are not exact. We have to approach them by some generalization.

THE CHAIRMAN: There is no indication in that paper, I assume, of who is spending the $45 million? Your submission is really on behalf of investments by individuals in prospecting and I was curious if Mr. Bradfield gave any indication if the $45 million is mostly spent by companies or individuals.

MR. HOGG: It is mostly spent by companies, and there is a reference in his paper on that on page 5. He says:

"A further check on this surmize" - he has referred in the previous paragraph to operations by organizations at the company level -

"A further check on this surmize is afforded by the figures available for 1960 which show 84% of reported exploration expenditures are made by only 19%

A9

of the companies reported. There are 83 companies making this 84% of the expenditures while 356 others account for the remaining 16% spent."

THE CHAIRMAN: How about individuals; he doesn't refer to them, does he?

MR. HOGG: He doesn't refer to it specifically, but I assume from the tenor of his remarks that it is very small. He says on page 4:

"Expenditures by syndicates are only partially reported so the totals should be increased by possibly 10%."

THE CHAIRMAN: But he doesn't say what the expenditures by grub stakers are?

MR. HOGG: I don't believe he does. I don't think he feels it is a significant amount.

THE CHAIRMAN: And would you feel likewise with regard to Saskatchewan? I think you have indicated that to us.

MR. HOGG: Yes, that is right. It is a rather insignificant amount in relation to the area of Saskatchewan that this pre-Cambrian area constitutes of the whole province.

When I mention area, I have not defined that. We are talking about an area which is 280 miles wide and 320 miles long; some 90,000 square miles; one-third of this province.

COMMISSIONER WALLS: There is one thing that rather disturbs me. I am very sympathetic with the need to assist and encourage prospecting, but I note that you only have in the pre-Cambrian shield in Saskatchewan, I believe, two active mines.

We have just recently come from the Northwest Territories where there were only five. On the other hand, we look over Northern Ontario, Northern Quebec, and see quite a number of active mines which would lead me, as a layman, to interpret that the development of mines is more dependent on access to the mines than perhaps any other single factor, and therefore is there much use in

B2 spending a lot of risk capital in prospecting for mines which may lay idle for quite a number of years before it is profitable to bring ore out from them?

MR. HOGG: In answer to that, my comment would be this: that there are mines operating in Canada at very considerable distance that operate under a considerable impediment, as far as transportation and access is concerned. However, they are operating and some of them are operating at a profit, so, therefore, it depends on the grade of the ore body.

It is true that where you have access, you can certainly mine lower-grade ore bodies. That is why the Blind River area of Ontario overshadows the Uranium City-Athabaska area. It is just cheaper to operate and they can operate at .1 cent uranium, where you need twice as much or two-and-a-half times as much grade.

However, there are two good mines operating there now, although one is exhausting its ore body. The other one will continue for a number of years, certainly, on account of its grade, so when these accidents of nature are discovered by dint of hard work, it can contribute substantially to the economy of the country in spite of the difficulties of transportation.

I think it is worthwhile.

COMMISSIONER WALLS: Thank you.

THE CHAIRMAN: You think it is worthwhile but the odds are certainly very much longer because of distance and accessibility, than they are close by?

MR. UPHAM: I would just like to add one remark: if you look at the Yellowknife camp, look at Red Lake

where there are five, six producing mines over a long period, and many other camps we could name you who had no better facilities for transportation than we have in Northern Saskatchewan or Northwest Territories; they are flourishing mining camps, providing very healthy employment for our people.

THE CHAIRMAN: And they wouldn't be there if somebody had not prospected to start with?

MR. UPHAM: Most of those camps would not have been there unless the old prospectors had been on the ground.

THE CHAIRMAN: Is that altering now by virtue of technical advances in prospecting? Companies are doing a very large proportion of the work, and I suppose they are doing that because it becomes very expensive to prospect by scientific methods?

MR. HOGG: I think that is a fair conclusion because in the 20's, and prior to the 20's, and even during the 30's, there was still an area of the pre-Cambrian which you could walk over for the first time.

That situation has now changed and the mineral occurrences that were evident from surface observation, I think that they have pretty near all been found. Therefore, prospecting is getting to be a more sophisticated kind of activity, and the prospector must recognize this. It is getting more expensive. He must team up with other people, other skills; with the geophysicist, and the geologist, now, in connection with his prospecting work.

THE CHAIRMAN: Has anybody made any significant discovery in recent years with $1,000 grub stake or

B4 $2,000 grub stake?

MR. HOGG: Well, I could mention one. The Manitouage mine in Ontario was found by a weekend prospector.

THE CHAIRMAN: That is true, and some of the uranium deposits also?

MR. HOGG: Yes, that is right.

MR.UPHAM: So you know the area we mean in Manitouage; that is the Geco and Wilroy mines. Some of the mines in Elliott Lake area were also by individual prospectors and geologists prospecting.

THE CHAIRMAN: So you claim that the day of the individual prospector has not yet disappeared?

MR. HOGG: It has not yet disappeared. Certainly he has to bring his techniques up to date and employ more modern technology.

MR. UPHAM: I think both our Provincial and Federal Governments recognize this in the training of their prospectors and the amount of geophysical work they are doing, both the Federal and Provincial Governments for use of the individual prospectors.

THE CHAIRMAN: Of course, I asked that question wondering as to what merit there may be to the individual backing a lone prospector, or a small syndicate backing a lone prospector. That used to be done very frequently. I am not sure - it may still be - but whether that is wasted resources or whether it is apt to produce results is not altogether clear in what you put before us, I don't think. Have you an opinion on that?

MR. HOGG: I might comment on that specific

B5

point. There is a difference, a very broad difference, between oil exploration and exploration for metal mines in the pre-Cambrian area.

THE CHAIRMAN: I was referring only to metal.

MR. HOGG: That is right, but to emphasize this: one drill hole in an oil area will give information over a fairly broad area. Whereas, one drill hole in the pre-Cambrian will only explore and give indications to a very limited amount because of more complexity of the geology. Therefore, you need, in order to find and develop mines, you need a great number of people exercising independent judgment in relatively small areas, compared with oil prospecting. Therefore, this job must be done, in my opinion, and in the opinion of the Chamber of Mines, if we are going to develop a reasonable growth figure in connection with mines; metal mining development

THE CHAIRMAN: "This job" being specifically what?

MR. HOGG: This job of exploration.

THE CHAIRMAN: By individuals or small groups?

MR. HOGG: By individuals and small groups as well as mining companies; by small groups and syndicates and the information that they supply is recognized by the Government as being extremely valuable. The regulations provide in Saskatchewan that all work done for which they receive credit, for what they call assessment work for claims, be submitted to the Government. It is held in confidence for a number of years. Even though the work may be unsuccessful for a particular syndicate or small group, it can add over the years to the general knowledge which is being accumulated and finally somebody will

B6 interpret from that data where an ore body will be found. That is the way it works here. You need continual flow of information on which various people can make judgments.

THE CHAIRMAN: The individual prospector returning from an unsuccessful prospecting trip is required by the Government to write a report?

MR. HOGG: If he has staked a claim and has filed assessment work, he is required to make a report on his operation, even including trenching and sampling and assay results. This is in the Province of Saskatchewan, and I believe other provinces have similar kinds of regulations.

THE CHAIRMAN: That was not quite what I was thinking of. I was thinking of unsuccessful prospecting. The man who went out hopefully seeking to find a claim, or to find something which he could claim, and did not succeed would not necessarily write a report?

MR. HOGG: That is right. If he did not succeed, if he did not stake any property, and even if he did and did not do any work on it, he is not required to write a report.

MR. UPHAM: The only exception to that would be each province has district geologists in their pre-Cambrian shields which keep pretty close track of prospectors and who do a lot of liaison with both successful and unsuccessful prospectors. There is a certain amount of information coming through that source.

THE CHAIRMAN: Thank you. I didn't know that.

COMMISSIONER GRANT: The prospector's licence is for one year?

B7

MR. HOGG: Yes.

COMMISSIONER GRANT: And is renewable if the assessment work has been done; is that right?

MR. HOGG: I might answer that in two parts: his licence costs $5.

COMMISSIONER GRANT: I mean his licence to search. What is sometimes, in other provinces, referred to as a licence to search. Prospector's licence to work a claim. When he makes his application, he asks for a certain area, or does he?

MR. HOGG: No. He goes down to the Mining Recorder and just lays down his $5 and gets a licence to claim land. He doesn't need a licence of any kind to go out and prospect and search. I don't think that is required any place in Canada, but when he wants to make a land acquisition by means of staking a claim, that is when he needs this little piece of paper, because on the claim post he writes "Staked by," and his name, licence so-and-so, and the date.

COMMISSIONER GRANT: Then he comes into the Mines Office and he identifies that on a plan?

MR. HOGG: That is right.

COMMISSIONER GRANT: And he is then given the right to explore that area further, is he?

MR. HOGG: Yes.

COMMISSIONER GRANT: That area might consist of several claims?

MR. HOGG: Yes.

COMMISSIONER GRANT: What is available and what he wishes?

B8

MR. HOGG: What he wishes.

COMMISSIONER GRANT: And he pays a certain nominal fee for that right?

MR. HOGG: $5 per claim.

COMMISSIONER GRANT: And he must then file a return on the area at the end of his first year showing the amount of money that he has spent on that property by way of work or supplies?

MR. HOGG: That is right. In Saskatchewan it is prior to the end of the second year.

COMMISSIONER GRANT: If he has met the qualifications, then that claim can be renewed?

MR. HOGG: That is right.

COMMISSIONER GRANT: In the particular submission that you are making now, have you estimated the amount that might be involved if prospectors were allowed to deduct their expenses incurred in searching for minerals?

MR. HOGG: We have not estimated what might be termed the response to our proposal on behalf of prospectors and their backers. We feel that it would certainly provide an incentive. There is a very small expenditure being made in relation to the area in Saskatchewan on this kind of work, at present, and we feel that it would be considerably increased. It is very difficult to put a figure on it.

For instance, on page 6 of the brief, Section 10:

"The annual amount spent in Saskatchewan
in exploration in the pre-Cambrian area
is estimated to be less than one-half a

B9

million dollars."

Now, this may include mining companies. By individuals our figure is that it would not exceed $20,000 annually. We think it would be increased considerably.

I wonder if I could comment on this at some additional length; from my recent experience, personal experience that I have had in financing a syndicate ---

THE CHAIRMAN: I wasn't really coming to the meat of this until we got through with the descriptive material.

MR. HOGG: I will just hold that.

THE CHAIRMAN: And other surrounding matters, because I feel you would like to argue your case a little more when we come, really, down to the burden of it. Am I right?

MR. HOGG: At present, in answer to that, I would say that if this proposal was accepted into the tax provisions, I would feel that the amount of exploration would be considerably increased on the part of individuals and syndicates.

COMMISSIONER GRANT: Would that entail a larger expenditure in the technical field than in the prospectors' field?

MR. HOGG: It would provide him with an opportunity of doing what we mentioned previously; in teaming up with modern technology, and that is what the prospector has to do.

COMMISSIONER GRANT: So that a syndicate, such as you mention in the opening paragraph, if this

B10 provision which you recommend were inserted in the Income Tax Act, would be in a position to hire, for instance, Prospectors Limited, who are equipped with airplanes and technical instruments to do your prospecting?

MR. HOGG: Yes, to take part in the program; that is right.

MR. UPHAM: We would be able to utilize the many services provided by the Federal and Provincial Governments which, to some extent, you might say, are standingby ready to be used, and they are not being used to their full extent, which are presently provided.

THE CHAIRMAN: What are those?

MR. UPHAM: Those types of services? Services like the Provincial and Federal Governments provide in each province; a certain amount of geophysical survey in each year. A good number of areas they survey are laying by and not being prospected.

THE CHAIRMAN: Do you mean that you would be able to take advantage of that because of the right to deduct costs or because of the increase in survey parties?

MR. UPHAM: Well, by the increase. You say all types of money behind prospecting. There would be more prospectors in the field who would use the services that are already provided.

THE CHAIRMAN: Because the Government services are available without payment, are they not?

MR. UPHAM: That is right, but the trouble is we don't have the prospectors available to use them. They are standing by ready to be used.

B/dpw

COMMISSIONER GRANT: The $45 million figure you mentioned earlier, does that include government expenditures?

MR. UPHAM: No.

THE CHAIRMAN: You refer in here to the laws of the United States, and also as to Australia. I think I would point out that the United States Government, so far as I am aware, doesn't have quite the same section as our 83, and probably in some circumstances collects tax on successful explorations. My information is for Australia, that the Australians have not been altogether happy and have talked about the ineffectiveness of that legislation, and I believe that their provision is to be re-examined and this has been stated in the Australian Parliament.

I don't suppose anybody is ever completely satisfied with incentive laws. It may be doing well for them; we don't know.

MR. HOGG: I might just comment: I am not acquainted with the Australian situation other than what we introduced in the brief. I wasn't able to get information on the effectiveness of their program. Similar legislation, or, at least, the legislation that you mention that is effective in the United States, that pertains to two minerals: oil and natural gas - but it operates differently - oil and natural gas and minerals. It operates differently in each case.

Certainly, the similar kind of legislation with respect to oil and natural gas is very effective in the United States and very effective in Saskatchewan. The

C2

one respecting minerals has more restrictions as far as the American is concerned in these expenditures. It only allows $100,000 over a four-year period, and then I think there are certain provisions whereby it must entail the purchase of an interest and it must be written off in that year, and I believe that this - in other words, you have to have a yearly turnover in incorporation.

This kind of rule does provide some impediment as far as its use, but certainly the one in connection with oil, which doesn't have that limitation, is very successful. It may be that just these rules that are surrounding the privilege limit its effectiveness as far as mineral exploration is concerned.

THE CHAIRMAN: Do you think that Section 83 has inspired much development?

MR. HOGG: Section 83 - I have found it useful when a boom is on, and when the risk is not as - that is when claims can be disposed of. It is useful in those periods. My personal experience has been that Section 83 is not very well known in the business community in general, and by individuals. It may be in Ontario, but certainly it is not in Saskatchewan. When a promoter of a syndicate, a prospecting promoter of a syndicate wants to raise funds I think he finds that is commendable in Section 83, yet in actual practice I think he finds that a prospective client that he wishes to obtain funds from to join his syndicate is more interested in what happens if the venture is not successful. I think that is the crux of the situation. I think that is what we are talking about.

He knows, the businessman knows the risks involved in this type of activity and the prospect that he will not be taxed as the present rules provide under Section 83 if the venture is successful is not as strong an incentive, in my opinion - in our opinion - as it would be if he was able to deduct his expenditures of the venture as an expense concurrently year by year.

THE CHAIRMAN: I think that is a most significant position that you take in this matter. It seems to me to be supported by the thought that when he is faced with the possibility of a loss he would be encouraged to know he was going to be able to deduct that loss, and on the other hand if he makes a profit he wouldn't complain very much about paying his share of Canadian taxes.

When we discuss incentive of this kind one must remember they are shifted from the shoulders of one taxpayer onto the other taxpayer, and while there is presumably extremely good reasons to do that it can't be done on account of costs and benefits. I wonder what the benefits are which one could count for Section 83. I think that it would be impossible to try and tabulate them. That is why I asked you if you had any opinion as to whether they did really achieve very much. We shall keep on searching for that. I am glad you put it as an alternative because it was certainly the way I had considered it, that it might be better to shift the incentive from the receiving end to the paying end.

I think it would be a pretty tall burden to permit the deduction of the cost and to exempt the profits from taxes.

C4

MR. HOGG: May I comment on that?

THE CHAIRMAN: By all means.

MR. HOGG: Whenever an incentive program is introduced it is a matter of public policy. It is our opinion if, at the same time, a deterrent is introduced the value of the incentive is lost; one counteracts the other. In looking at this question you have to consider that in mining it is dangerous to count your chickens before they are hatched. It would be, in our opinion, an impediment to the incentive if that approach was taken.

THE CHAIRMAN: I am sorry; what approach? You will have to be more specific.

MR. HOGG: That is the approach that the profits would be taxed from ventures under our proposal. It also will take a period of years before - if I might make an aside to this: in Section 83 we are wondering how effective it has been; the present prospectors' section. I haven't seen any statistics on this, although it has been in the tax books and available for a number of years.

Therefore, in the proposal that we make, it is our opinion that it would be some time before there would be any profits to tax. We would suggest that, certainly, you look to see whether there is - the program is actually effective and whether there are going to be any chickens.

THE CHAIRMAN: I quite agree.

COMMISSIONER GRANT: What concerns me most, I think, Mr. Hogg, in this submission, is to go back to the reason why the proposal which you are now making was not inserted in the Act in the first instance, and try to

C5 find out why it wasn't inserted; why a prospector couldn't deduct his expenses incurred in prospecting when his results were negative, or why those that backed him weren't allowed to do it.

I am wondering if the reason for that was that when the Act was first drafted that prospecting was then done largely through the efforts of the grub staker that went out to try and find the mine, and the cost wasn't very great, but the rewards were handsome if he was successful, and, therefore, it would be regarded as a good gamble either for himself or for those who had been backing him.

I am just trying to get around to find out why the proposal you are now putting forward wasn't included in the first instance. There must have been a reason. You come forward with this submission and ask for an amendment to the Act which would permit these expenses to be deducted from other income, either of the prospector himself or of his backers.

Is that by any chance because the nature of prospecting has changed and it has become, now, a much more expensive method of finding the ore body? In other words, is it because you have to go out and hire airplanes equipped with the necessary technical instruments to fly the area?

MR. HOGG: I would agree with your comments. My answer is yes. If I might elaborate, I would say this: firstly, I am not acquainted with the circumstances surrounding the introduction of the present Section 83.

COMMISSIONER GRANT: I am not either.

C6

MR. HOGG: The prospectors' section - I believe that it was introduced at the suggestion of the Prospectors and Developers' Association, and they will undoubtedly be making some submission on that. Therefore, I am not acquainted with the circumstances.

COMMISSIONER GRANT: We would have expected them to have gone further than the Act has gone at the present time when they made their representation; in fact, one would have expected they would have asked for what you are asking now. We don't know; that is speculation only.

MR. HOGG: Certainly, the exploration activity is separate from mining, really. It requires operating mines for exploration separated to an extent within the organizations, from the actual production of ore and milling, the processing of the minerals. It requires special people, different skills and techniques that are employed in mining operations which support it, and, therefore, exploration activity now is considered, with its complexities, as an industry and it is quite possible that your suggestion is correct, but at the time it wasn't considered as an industry; it was considered somewhat on the same basis as though you would go down and bet on the horse races, whereas in our opinion it is an industry - the exploration activity - so therefore it should be treated as a business.

COMMISSIONER GRANT: I would like to ask you a question ---

MR. HOGG: And not as a straight gamble.

COMMISSIONER GRANT: I am sorry I interrupted

C7 you. This is for my own knowledge, and I suppose for the benefit of the hearing, generally: do the large companies 2 today, when they are exploring for new ore bodies, are they making use, in the first instance, of the individual prospector?

MR. HOGG: Yes, they employ the individual prospector.

COMMISSIONER GRANT: Before they carry out an aerial survey?

MR.HOGG: They employ individual prospectors as well as carry out - that is to prospect in new regions and generally the prospectors are under the supervision of a geologist who assesses their finds and makes an estimation as to whether the area has possibilities. This is done by a mining company.

COMMISSIONER GRANT: So the initial probe is done on the ground by a prospector in most cases?

MR. HOGG: Well, it depends on the area. For instance, in many areas of the pre-Cambrian there are 2% rock out-crop and therefore the prospector is beat in these areas, and, therefore, they have to be attacked by a different method - your airborne surveys, geophysical surveys on the ground, both magnetic and conductive surveys.

In these particular areas there must be just as good prospects as areas in which the prospector could operate yet they have to apply different techniques; it depends on the area, and on the program, but in general prospectors are still employed by the large companies.

COMMISSIONER GRANT: Yes, thank you.

C8

THE CHAIRMAN: Anything else?

COMMISSIONER MILNE: I have one question. Certainly, we recognize that the area that has been unexplored is extremely vast. You mentioned in your notes that the result of geophysical surveys provided by the Government are simply standing by to be used when the time appears proper. Is there some relation here that we haven't seen? Is there any shortage of ore in reserve?

MR. HOGG: Well, certainly, in Saskatchewan they are using ore at a much faster rate than new mines are being developed. We are conscious of that fact because this year the Coronation mine is closing down and Gunnar mine is closing down. Prior to that the Birch Lake mine closed down. Certainly, in Saskatchewan, I would say that ore is being developed at a faster rate in metal mining, in the metal mining field, that is being put into site.

I believe Mr. Bradfield made the same general comment in connection with Canada.

THE CHAIRMAN: Is there anything further? We have no further questions, gentlemen. You have given us a lot to ponder.

/dpw

Before closing, is there anything you would care to say to us? You indicated you had some notes. I wondered if you had taken care of them.

MR. HOGG: I think there are a couple of points that you might find of interest. I have been in Northern Saskatchewan for the past month engaged in exploration activities, diamond drilling and geophysical work, and I found that in general the activity in Saskatchewan is down. That is, as much as can be assessed at this time, is down from last year.

In our brief we mention one of the results of the adoption of our proposal would be increased employment. There has recently been a statement made by the Honourable Eiling Kramer, Minister of Natural Resources for the Province of Saskatchewan, on the population growth rate in Northern Saskatchewan, and according to his statement the growth rate in Northern Saskatchewan, that would be the pre-Cambrian area, is 37.8 as compared to 19.6 for the whole province.

I think that this is going to be a problem. Certainly, the amount of social aid that you hear about now - there was a time you did not hear about this situation when you visited a local settlement, but now it is discussed. The number of people that are on what we used to call relief in centres like Uranium City is causing considerable concern to the local municipal organizations, although their contribution is only a part.

It is being looked after by the Federal and Provincial Governments and so, therefore, fishing and trapping, and, to an extent, guiding tourists is not a

D2

satisfactory economic base for the local population in the north and this problem is going to increase.

In connection with your question, Mr. Chairman, on the point if this proposal was accepted, then certainly it would have to be compensated; that any profits would naturally have to be taxed. I have already commented on that, but I would like to add one other comment: that, certainly, in this kind of activity, even though your expenses would be allowed as a deduction, it is really still shared with the taxing authority, and, therefore, if you are going to tax these kinds of profits, then certainly it shouldn't be done at income tax rates because that would be a severe - in my opinion - deterrent.

The American administration has recognized this and the profits from this kind of activity in oil and gas and minerals are taxed at a flat rate. Three years ago I was looking after drilling of an oil well and nearby there was another well drilling, and it was being financed by Marlon Brando. There is a reason for that; he is in a high tax bracket. The incentive for him was a reduction in his rate of 25%, if he was successful.

I just have one other comment, and this we have mentioned in our brief: about foreign investment in Canada. Certainly, the Chamber of Mines is not against that. We are very happy for people outside of Canada to come in and develop our resources but there certainly should be some kind of balance as far as the ownership of resources between foreign interests and local Canadians.

There is some sentiment when you go around the country in connection with this. I am reminded of the

D3

fact that 90% of the oil production in Saskatchewan is foreign-owned, and this is known by local people, and the sentiment that you get sometimes expressed is what I experienced in Quebec in the late 30's as a staff member of a number of mines and my French-Canadian friends looked on me as being in a little different category as a Canadian because the mines that they worked in were owned by people from Ontario and people from the United States. He felt that I was sailing down the mainstream of economic life in Quebec and he was struggling in the backwater. He probably would not express it that way, but I got the message.

I feel our proposal would assist in Canada in general in developing means by which local Canadians, whether French-Canadians or English-Canadians, can participate in the development and ownership of mineral resources.

COMMISSIONER GRANT: If your proposal were accepted, Mr. Hogg, it would be difficult to deny a similar right to the oil industry, would it not?

MR. HOGG: Well, there are provisions now that are, shall I say, denied to the oil industry. Section 83 does not apply.

COMMISSIONER GRANT: That is right. If it were extended to the individual, then, would you say that it should be extended to the person who is prospecting for oil? The individual or the syndicate.

MR. HOGG: Well, right now there is that discrimination, and as far as oil and gas is concerned it's in what you would call this grey area of taxation. You don't know where you stand.

D4

In my personal business I have run up against this situation and at times, in connection with deals, I just put it into income because I don't want the situation to evolve where four years from now I am going to be taxed on a situation where I have already spent the money.

COMMISSIONER GRANT: Then, do you see an analogy to the farmer clearing land to put it in shape to raise crops? He is not now allowed to deduct that expense from his income.

MR. HOGG: There is a little difference there. He has still got the land. He knows that when he clears the land he can produce from it, whereas, when they are required to spend several hundreds of dollars in a patch of trees and muskeg and rock the possibility the prospector will walk away with nothing is really high. I think this is the difference.

THE CHAIRMAN: I think that takes care of our questions very nicely. We understand the problem. We have your solution to it, and I assure you we will consider it. Thank you very much, indeed, for your help to us this morning. It was good to see you.

MR. HOGG: Thank you very much.

--- Short Recess

THE CHAIRMAN: Mr. Secretary, shall we get going?

THE SECRETARY: Mr. Chairman, the next brief this morning has been submitted by the Grand Orange Lodge of Saskatchewan. Mr. Wilfred Humphries, who is Chairman

D5 of their Legislation Committee, is here to speak to the brief.

At the same time there are two other briefs: one from the Regina County, Loyal Orange Lodge, and one from the Protestant League of Saskatchewan. There will be nobody representing these two briefs here this morning, although Mr. Humphries tells me he may say a word or two about them.

I would like to enter the brief of The Grand Orange Lodge of Saskatchewan into the record as Exhibit No. 169.

--- EXHIBIT NO. 169: Submission of The Grand Orange Lodge of Saskatchewan.

THE SECRETARY: The brief of the Regina County, Loyal Orange Lodge into the record as Exhibit 170.

--- EXHIBIT NO. 170: Submission of the Regina County, Loyal Orange Lodge.

THE SECRETARY: The brief of the Protestant League of Saskatchewan into the record as Exhibit 171.

--- EXHIBIT NO. 171: Submission of the Protestant League of Saskatchewan.

<u>SUBMISSION OF THE GRAND ORANGE LODGE OF SASKATCHEWAN</u>

Appearance: Mr. Wilfred Humphries

THE CHAIRMAN: Thank you, Mr. Secretary. Good morning, Mr. Humphries.

MR. HUMPHRIES: Good morning.

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THE CHAIRMAN: We have your submission and the other ones referred to by the Secretary which we have read and I might say we have heard most of this problem already. We will have a few questions to put to you. There is no need to read the submissions because we have already done so and they are entered into the record without reading. Would you care to say anything to us before we ask questions?

MR. HUMPHRIES: Well, sir, I don't know the nature of the questions. I would sooner say something after.

THE CHAIRMAN: Very good. Don't bother to stand unless you wish to do so. You refer in here to a figure of $15 million. That is a large sum of money.

MR. HUMPHRIES: That is right.

THE CHAIRMAN: As being revenue lost by the Federal Government in respect of this particular section of the Act. Can you give us details of the $15 million, or can you support it any further?

MR. HUMPHRIES: Yes, Mr. Chairman. In Saskatchewan we have, over the last period of years, five or six years, investigated this situation and we find - and these figures have been checked with the Department of Education - and we have on our files letters from the Department - there is at the present time in the public schools alone of Saskatchewan 276 nuns teaching in our public schools.

Now, that doesn't take into consideration the nuns and other people that come under this classification who are teaching in the separate schools and there are

D7

also nurses in the hospitals and there are also social workers who are paid from the public funds and other people in different classes and the 276 nuns in the public schools, plus the eight lay brothers, plus the people in this class that are teaching in the separate schools would, in our estimation, amount to at least 1,000 people now in Saskatchewan.

Our information is that we have here a teachers' organization which in each of the larger units in the public school boards sets the wages and for a person that has taught in Saskatchewan for approximately four years - I know something about it. I taught school once myself and I have eight people in our family that are teaching school now. The wages would be at least $4,000 a year. I think you will find that the income tax on $4,000 a year would be around $500 for a single person. Now, that would make the amount of money lost in Saskatchewan alone half-a-million dollars.

Now, if we figure it out on a percentage basis in Saskatchewan, reported last week in the Leader Post, the population - that is the Roman Catholic population which we would have to use for this percentage basis - is 34,828 Greek Catholics and 242,808 Roman Catholics. I lumped those two figures together and I got approximately 280,000 people.

Now, there is in Canada at the present time - I think the census now is 19 million, isn't it? Nineteen million - I think that came out last week - and 45% of the population are Roman Catholics. That would amount to 8,550,000 Roman Catholics in the province. Now, for

D8 every 280,000 Roman Catholics, if there is a loss in tax exemption of $500, I think that would give you a total figure of $15 million. That is in this one class of tax exemption alone.

THE CHAIRMAN: Now, that does not seem to be borne out by something else I have got before me. This is a submission by the Regina County, Loyal Orange Lodge, which you may have there, and it indicates on the first page, I think it is, paragraph 4, that the grand total in the public schools, separate schools, grand total of nuns and lay brothers, is 2,904 in the provinces of - this is Alberta, Saskatchewan and Ontario; three provinces.

At $500 each that would be a million-and-a-half dollars. You would point out to me, of course, very quickly that 2,904 is not the total for all of Canada. It would be several times that.

MR. HUMPHRIES: Yes.

THE CHAIRMAN: If it were ten times that, of course, it would be 15 million.

MR. HUMPHRIES: That brief prepared by the Regina County, Orange Lodge was taken from figures, from a brief prepared and sent to certain government officials in 1959 and only dealt with the provinces as stated there and it is not intended to cover Canada as a whole.

THE CHAIRMAN: You do not think this, in any way, denies what you say?

MR. HUMPHRIES: No, absolutely not.

COMMISSIONER GRANT: It just occurs to me that an interesting comparison would be as to what is the average rate of tax, income tax, paid by a teacher who is

D9

not of the Roman Catholic faith, because in arriving at the $15 million figure, you are basing that upon the fact that each teacher is a single person and, therefore, subject to the minimum exemption.

MR. HUMPHRIES: Well, I assume - I am basing it on the fact that the people we are dealing with are nuns.

COMMISSIONER GRANT: And because of their minimum exemption, they would be paying a low rate, but on a higher income than the average Protestant teacher?

MR. HUMPHRIES: I think there is a little difference in understanding, sir, here. I am not dealing with Roman Catholic teachers because you can have a situation in a school - for instance, at Labret, where I pay taxes at the school at Labret, you have certain nuns who teach there.

COMMISSIONER GRANT: Please let me say, Mr. Humphries, that I am not suggesting that you are dealing with Roman Catholic teachers. I know that you are dealing with those who belong to a religious order, such as nuns.

What I am saying now is the estimated loss to the Federal Treasury is $15 million based upon the exemption and the fact that they are not taxed?

MR. HUMPHRIES: Yes, and I am only dealing with members of religious orders; not with Roman Catholic people.

COMMISSIONER GRANT: Do you understand my comparison?

MR. HUMPHRIES: Not completely, sir.

COMMISSIONER GRANT: Well, my comparison is simply this: that if the Protestant teachers were also

D10 single and belonged to an order that made them tax-exempt, the loss to the Treasury would correspond on a per capita basis to the loss which you have estimated here to be $15 million.

MR. HUMPHRIES: If they were single and belonged to a religious order - there is only one case. I think there is an Anglican religious order, but very few people - I don't think there are very many - it doesn't come in here at all, as far as I understand, as far as Saskatchewan is concerned, but as far as taking a vote of perpetual poverty, I know of no - I don't know whether I can call the Anglican Protestants or not - some of them don't like the word.

/dpw They call themselves some other name. The Protestant groups, like the Presbyterians, United and the Evangelical groups - I know of no order amongst them that takes the vow of perpetual poverty.

COMMISSIONER WALLS: Do you know whether in all cases the salary of these people is paid over to the individual or is it, in some places, paid over to the religious order who supply them with their minimum requirements of food and clothing?

MR. HUMPHRIES: My understanding - and in order to come to a complete picture of this whole situation, you would have to have a government inquiry with lots of money, but the information that I could gather now is that the members of the religious order turn over their cheques to their order, and in turn their order supplies all their wants. They don't have any money themselves.

THE CHAIRMAN: You, or one of your submissions, point out to us it places the non-Roman Catholic denominations at a considerable disadvantage with respect to the construction of social buildings. I can see that if one does not pay taxes there is more money available for building; that is clear. If the other religious orders were similarly free of tax would that mean they would necessarily have more money for building?

MR. HUMPHRIES: You mean if all the Protestant clergymen were free of tax?

THE CHAIRMAN: I do.

MR. HUMPHRIES: Yes. For example, I belong to the Knox Metropolitan United Church. If our pastor was free of tax we would probably pay him $1,000 a year less

E2 salary, which could be used for our building fund. That would be probably true across the country.

THE CHAIRMAN: Did you reduce his salary when the exemption of $1,000 to clergymen was introduced into the Act?

MR. HUMPHRIES: I don't know.

THE CHAIRMAN: I think you probably didn't. I don't know whether that is a fair question.

MR. HUMPHRIES: No, I don't think it is, sir.

THE CHAIRMAN: I think we have no more questions, Mr. Humphries. Would you like to say anything?

MR. HUMPHRIES: I would like to say a few words in clarification. I would like to say I am not - I have been engaged in this work for a number of years. I have found if you prepare anything like that you are immediately called a bigot and trying to stir up trouble; that is not my purpose at all. I believe in equal rights for all and special privileges for none. I don't think any section of the population should have any special privileges, whether a religious organization or not; Protestant or Roman Catholic or Jews or whatever it is.

We have here, I think, a special privilege granted to a certain section of our population. Now, it might be said if the same privileges were granted to Protestant clergymen that would be all right. I don't think it would. I don't think anybody should have special privileges. I am dealing with this in its political implications and financial implications as it affects Protestant taxpayers.

A lot of Protestant taxpayers - we are

E3

conscientious members of the church, or the Jewish taxpayer - we are under an obligation to propagate our faith, of course, and this places me in the situation of, against my will, and having no say in the matter of propagating the Roman Catholic faith and the reason that is the situation that exists in Saskatchewan is - here is one example in the Village of Labret where I have a little cottage - I pay taxes to the Town of Labret and the public schools, where the nuns and lay brothers teach at Labret - there are nuns teaching in the schools. They are paid out of public funds. They are public servants, servants of the City. I help to pay their wages but my money is turned over to the Roman Catholic Church. This is my money that is helping to propagate the Roman Catholic Church.

I would sooner have my money used to propagate my church. In this case I have nothing at all to say about this, so against my wishes - I have absolutely nothing to say. I don't think it is fair. I don't think most lay members of the Roman Catholic Church think it fair, and probably some of the officials, but we are directing this to the attention of the public at large.

There is a freer attitude now between the Roman Catholic Church and the Protestants and the separated brethren, as they are called, and it is possible that leaders may read this brief or take some interest in it in the interests of fairness, and ask the tax be abolished on this. We feel it is unfair tax discrimination.

There is another aspect to the situation. Supposing that the 20 million, 15 million - if it is 15 million a year, and it may be more or it may be less -

there are other tax situations in the country where it would amount to probably more than 30 million, 50 million dollars a year. We have made no large survey in Canada due to lack of funds at the present time, but in the States it has been made and the tax exemption that has been given in the States to the Roman Catholic organizations that engage in commercial enterprises - for instance, the Christian Brothers of California, who are the largest makers of brandy in the North American Continent, have had to pay back taxes to the American Government of $4 million due to the objections made by the Federation of American Brethren, jurists, lawyers and intellectuals.

The radio-television station in New Orleans, which is owned by the Jesuits, can sell its advertising at 10% less than other stations because it pays no taxes. The Church owns numerous other business organizations; cheese factories, and so on.

The Report of the United Nations - the fact that the Roman Catholic Church ranks next to the United States and Russia in wealth and has a total wealth of over 14 billions of dollars - this is borne out by statements made by the Roman Catholics themselves. They also own large real estate holdings. I believe a new $40 million complex in Montreal is largely financed by an organization known as Deomentia, which is a subsidiary of the Vatican, which is also financing a large complex in Washington, D.C.

THE CHAIRMAN: Don't you think we are straying a little bit from the matter of taxes?

MR. HUMPHRIES: That is right, possibly. This concentration of wealth - let me say this: this concentration

E5

because it isn't reduced by taxes from generation to generation grows and grows and grows. The result you will find in a few years, unless it is stopped, 25% of the wealth in this country will be concentrated in one source, the same as it was in Russia under the old Russian Church; the same as it was in Spain, and the same as it is in South America now. That brings inevitably one thing, and I don't think I need to say what that one thing is. It always ends the same, with the rich getting richer and the poor getting poorer.

This is the object of this brief, to draw the attention to the people of this situation. We don't like Communists, but are we doing anything about it? If we don't stop something like this we will be breeding the funds which produce Communism when there is wealth in a few hands.

THE CHAIRMAN: Thank you. We will direct ourselves in the report to the achievement of fair taxation, sir. We thank you very much, indeed, for having put it before us. We understand the problem and we will continue to consider it. I think that is all from our side, thank you.

MR. HUMPHRIES: Thank you.

THE CHAIRMAN: All right, Mr. Secretary.

THE SECRETARY: Mr. Chairman, the next brief before you this morning is presented by the Retail Merchants' Association of Canada (Saskatchewan) Incorporated. Mr. Howard Saunders, President of the Association is here this morning, and Mr. R.E. Walker, Secretary-Manager. Mr. Walker is going to speak to the brief which I now

E6 enter into the record as Exhibit 172.

--- EXHIBIT NO. 172: Submission of the Retail Merchants' Association of Canada (Saskatchewan) Inc.

SUBMISSION OF THE RETAIL MERCHANTS' ASSOCIATION OF CANADA (SASKATCHEWAN) INC.

Appearances: Mr. Howard Saunders
Mr. Ross Walker

THE CHAIRMAN: Thank you, Mr. Secretary. Good morning, Mr. Saunders. Good morning, Mr. Walker. We have read your submission with interest. It covers some very interesting subjects. I see at the end it is prepared by Mr. Walker and I congratulate you on it, sir. We have some questions to put to you. Before doing so, is there anything you would like to add to what you have put before us?

MR. WALKER: Mr. Chairman, I would like to say a few words on some points if it is in order.

THE CHAIRMAN: By all means. You don't need to read it. It is already in the record.

MR. WALKER: We are glad to have the opportunity of presenting the Saskatchewan Retail Merchants' Association brief to your Royal Commission on Taxation.

In our brief to you, we have recommended six main points for your consideration.

1. Reduce over a three-year period personal income tax rates by 7½, 15 and 22½% from the present income tax schedules.

2. Reduce corporation tax by 5% from the

E7 present taxing schedules.

3. To make up the reduced tax revenue that would be received by the government, we have recommended that (i) the tax savings would go into the market place and Canada would have increased retail sales which would reflect tax into the government through sales and excise tax.

The tax savings would have the effect of lowering the cost of the Canadian product and make it more competitive on export markets and would put increased numbers of Canadians in employment, and we have recommended:

4. That all Crown Corporations be subject to income tax on the same taxing schedules as other corporations.

We suggest that taxing Crown Corporations will have the desired effect of raising the revenues to a higher level than presently and lowering the tax payable by individuals, and corporations.

You will have noted that for the taxing year 1960 all income tax returns filed with the Income Tax Department amounted to total taxable income of 20½ billions of dollars and the total exemptions amount in the same year to 11.6 billions of dollars.

5. We have recommended that all couples marrying in Canada be exempt from income tax payments for the year in which they are married.

A larger percentage of our young men and women are seeking higher education through universities and many couples are marrying in final years. These well-equipped

E8 young Canadians will be the leaders in Canada in the future years and we are of the opinion they deserve consideration and we recommend exemption the year in which they marry.

6. We have recommended that consideration be given, allowing corporations to set up income tax-free investment, reserves for economic stabilization.

Reserves could be built up during prosperous periods and give men and women employment during recessions.

The Investment Reserves we believe will have a strong tendency to keep our economy level without the recessions and plateaux.

We believe the six points would have favourable effect on the Canadian economy.

THE CHAIRMAN: Thank you, Mr. Walker. I would like to take that point by point if we may. We will take
2 a slightly closer look at them. The proposal as to the personal income tax reduction, you suggest, will be made up so far as governmental revenue is concerned by an increase in business activity. This rather surprised me because as far as I understood the matter, that similar proposals were made in the United States and are now before Congress, and there is estimated to be a net loss, at least in the early years, anyhow, although it is believed that the long-range effect will more than compensate for the loss in the early years.

I gather that you believe there would be such a stimulus that the compensation would ensue virtually right away.

MR. WALKER: We believe so. Taking the 1960

E9 tax returns there are $1\frac{1}{2}$ million returns now reported in 1962 earning less; at least from $1,000 to $2,999.

/dpw We are of the opinion that should taxes be reduced a percentage of those will have earnings raised to bring them into tax-paying increase.

COMMISSIONER WALLS: I am not too clear as to the group that you wish to progressively reduce the taxes on, because on page 12 you are giving the idea that it applies to everybody. Whereas, I notice on page 3, where you are dealing with it, you mention with employee groups only.

Now, which group do you suggest?

MR. WALKER: We are suggesting all Canadians that are paying individual income taxes.

COMMISSIONER WALLS: You do say in your brief, on page 3, at the bottom of the page under 1, where you specifically mention the employee group and further along in your tables you separate employee group from other groups; I would like you to clarify that for me.

MR. WALKER: In our reference on page 12, we are dealing with all Canadians, which I believe that we should deal with with respect to income taxes.

COMMISSIONER WALLS: It does not apply, then, to any specific group?

MR. WALKER: No, it does not.

THE CHAIRMAN: It is a flat $7\frac{1}{2}$% for the first year across the board to all taxpayers?

MR. WALKER: That is right.

THE CHAIRMAN: Point 2 deals with corporation taxes and that would bring it down by 15 to the point

F2 that at the end of three years the rate would be something like 35%?

MR. WALKER: If I have made that point not clear, I suggest that it be just 5% each year. That it remain at 5% each year.

THE CHAIRMAN: That is, there is one reduction of 5%, and that is all?

MR. WALKER: That is correct.

THE CHAIRMAN: What do you propose at the end of the three-year period?

MR. WALKER: Well, I would suggest that a review be made at that time. A review at the end of the three-year period.

THE CHAIRMAN: And again you believe that that loss would be compensated by an increase in business activity?

MR. WALKER: A good portion of the income lost in the lower end of the tax would be recovered by a higher sales volume that would possibly throw back in at 30 to 40 percent of recovery, and in the event that Crown corporations were taxed, it would be much more.

Electrical companies, for instance, would pay alone, based on 1960 - they were all taxed on the same basis, at least 75 million dollars. That is reported in Bulletin 57, 202, D.B.S., for 1960.

THE CHAIRMAN: Then the 5% decrease in corporation taxes. Supposing that competition worked most effectively, you would have a reduction in selling prices and that reduction in selling price would be 1% or less, presumably, because the 5% applies to profits. One would have to, therefore, assume that such a reduction would

F3 influence an increase in purchasing to produce sufficient profits that the Government was going to pick up what is lost.

MR. WALKER: That is what we would expect.

THE CHAIRMAN: You would expect that to occur?

MR. WALKER: Yes.

THE CHAIRMAN: One of our difficulties is, of course, that our terms of reference require that whatever recommendation we make provides sufficient funds for the operation of the Government and you are within our terms of reference if we accept your hypothesis that such reduction will, in fact, pay for this.

The next one relates to corporations operating in Canada, including Crown corporations, to pay income tax on the same taxing schedule basis, and that, of course, extends to the corporations beyond Crown corporations to provincial and municipal ones, I would judge?

MR. WALKER: Yes, that is right.

THE CHAIRMAN: The federal scheme in Canada makes some of these things a little difficult, of which you are undoubtedly aware, owing to the autonomy of the different governments in the country.

COMMISSIONER GRANT: I suppose your point there, Mr. Walker, is more in line with the idea that by taxing Crown corporations you would be putting private business in a more competitive position where they may compete more than in enhancing or enriching the Federal Treasury?

MR. WALKER: We were hoping that it would enhance the Federal Treasury also, so as to reduce the net taxes

F4 paid by individuals and competing corporations.

COMMISSIONER GRANT: A Crown corporation is an emanation of the Crown in the right of the Government which sets it up and, therefore, it owns the company; it owns the corporation and, therefore, it has the power to expropriate to the general treasury any surplus or account that might be built up through profits.

COMMISSIONER WALLS: Is the principle intended by this paragraph to place an obstruction against expropriation of industries by government?

MR. WALKER: No, it is not.

COMMISSIONER GRANT: Do you see any great advantage in taxing Crown corporations other than to put them in a more competitive position?

MR. WALKER : Yes, for the raising of revenue and lowering other rates.

COMMISSIONER GRANT: The revenue is available to the Crown if it is there.

MR. WALKER: Possibly the argument can be taken that the Crown corporations have power, telephones and suchlike - would reduce rates, and that would have the same effect as what we are attempting. If the rates are reduced that extra amount of money would flow, then, into the market.

THE CHAIRMAN: We are concerned about the total of all taxes levied by all governments and if one takes money away from one and passes it over to the other, it doesn't have much effect on the total amount of taxes.

There is a comment on page 13 regarding this particular matter that I couldn't fully understand. Your

F5

paragraph reads:

"We suggest that all business in Canada be assessed on the same basis and pay income tax at the same income tax rate and this taxing apply to all Crown corporations."

Now, I get the idea about Crown corporations but going back to the other application of the paragraph - pay income at the same income tax rate.

MR. WALKER: On the same schedules. On the same tax schedules of the earning - they were earning 10, 20, one million dollars, whatever the case would be, whatever category they would fall in they would be rated at that category in which they fell as the rate is now set up by the Department.

THE CHAIRMAN: Don't they do so now; save only Crown corporations?

MR. WALKER: Other corporations do but not Crown corporations.

THE CHAIRMAN: Thank you. I was concerned as to whether or not you objected to the graduation in the corporation tax rate.

MR. WALKER: No.

THE CHAIRMAN: The exemption you propose for young married couples is interesting and it has been my observation with some of my own employees that they were wealthier during the first year of married life than they were after, because the girls were generally working and seemed very happy to do so.

MR. WALKER: I don't think you will find that

F6 in our province.

COMMISSIONER WALLS: With the increased incidence of divorce, are you going to make this for just the first marriage or do they get this exemption in every marriage?

MR. WALKER: It was particularly with the younger couples. I possibly should have made that specific; for the first marriage.

COMMISSIONER WALLS: Because I could, perhaps, be a little facetious and a little cynical and could envisage a young man down on his knees before a young lady and saying, "Will you marry me for a year and I will split my $1,500 tax exemption with you?"

MR. WALKER: I think that is very true.

COMMISSIONER MILNE: I was interested in this and did find this an extremely interesting comment and I think that it is possibl that young people marrying now are quite aware of the high cost and they prepare for this very thing. Do you not think that there might be an inherent danger in this type of exemption; that they wouldn't be approaching the true cost of living as a married couple if this exemption were extended?

MR. WALKER: I don't think so. There are so many of our young people today - I think when we were working on this particular section that there were about 27,000 of these that we have reference to are university students, then I don't think that their outlook would be changed very much by the fact that they could become married and have income tax exemption. I don't think that would influence them.

THE CHAIRMAN: You make recommendations with

F7 regard to Section 79(b) on pension plans and propose that the deduction be made more liberal in the interests of increasing pensions. I, of course, wonder whether this is the time, really, to discuss matters of pensions. There is a lot of pension legislation proceeding and it seems obvious that the result of such legislation will cause an amendment of some kind to the Income Tax Act.

However, we have observed your comments.

2 MR. WALKER: This was written, Mr. Chairman, prior to the present discussion in the House of Commons with respect to this matter.

THE CHAIRMAN: You would agree with me?

MR. WALKER: Yes, I would.

THE CHAIRMAN: We will just leave it over, then. Excise taxes be reduced on cigarettes, cigars, tobacco, by 10% immediately. I see that you believe that taxation should not extend to matters of the health of the nation. It seems to extend to everything else. I don't know why we should leave out health.

MR. WALKER: I was only referring there to the high cost. We are not really pointing out the matter with respect to cigarette health hazards. What we are attempting to point out here is the matter of the extremely high tax on cigarettes and tobacco.

As I mentioned, this brief was written at Christmas and a good deal of publication with respect to health has been written since this brief was written.

COMMISSIONER WALLS: One or two questions regarding this: I notice you lump both excise duties and excise taxes in order to quote your figures; a total expenditure

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F8

on tobacco, cigarettes and cigars. If you were to make any change on the excise duty, you do appreciate that you would have to probably make a like change on the tariff on foreign-country cigarettes coming in, so that the excise duty is in line with the tariff of the imported products.

The total amount on excise taxes, instead of being in the neighbourhood of $600 million, is $200 million. Now, I think it is on page 12 where you are dealing with this matter, you say:

> "We are suggesting that the decreased amount would be offset by increases in sales taxes."

Do you mean an overall increase in the 11% sales tax or do you mean at by reducing the price on cigarettes there would be more cigarettes sold and, therefore, more sales taxes would be collected?

MR. WALKER: No, I don't think that. We are not suggesting there would be any more cigarettes sold.

COMMISSIONER WALLS: The point that really interests me here is, I notice that by three years from now you are going to reduce our tax revenue by, I would estimate, at least three-quarters of a billion dollars. Now, the only suggestion in your whole brief for any tax that might make up for this is this one reference to increase in sales taxes, and I wonder if you would enlarge on what you had in mind?

MR. WALKER: And Crown corporations.

COMMISSIONER WALLS: Yes, but what have you got

F9 particularly in mind, then, in reference to increase on any sales tax?

MR. WALKER: Not any.

COMMISSIONER WALLS: You state that, though, on the bottom of page 12:

"We are suggesting the decreased amount would be offset by increases in sales taxes."

MR. WALKER: You have dealt with the first part with respect to the personal income and corporation taxes. This is not dealing with the sales tax and excise taxes with respect to page 12, that last.

COMMISSIONER WALLS: It immediately follows your paragraph dealing with the sales taxes and special commodity taxes, excise duty, and then you are saying:

"We are suggesting the decreased amount would be offset by these increases in sales taxes."

Now, all I really want to know is what increase in sales tax you have in mind.

MR. WALKER: I haven't. I am not suggesting - whether this wording is giving the wrong meaning; we haven't any desire to increase sales taxes. We suggest the sales taxes be left as they are presently; at their present rates.

COMMISSIONER WALLS: I have one further question:

The price that we pay for cigarettes and tobacco apparently has had no effect on sales. Cigarette prices have been increased and sales have more than kept pace.

F10

Now, if it is necessary to obtain increased revenue as easily as possible, can you tell me any other item we could put an increased tax on, or luxury tax, if you wish to call it that, better than you could on cigarettes and tobacco?

PB/dpw

MR. WALKER: Not at the present moment. Right at the moment I couldn't.

THE CHAIRMAN: I am not clear on that sentence at the bottom of page 12. I think the meaning must be that it is not an increase in the rate of sales taxes, it is an increase in sales that will be secured by greater volume.

MR. WALKER: That is right.

THE CHAIRMAN: Greater volume in the sale of tobacco products?

MR.WALKER: In sales of overall products.

THE CHAIRMAN: This comes back to the reduction of income tax and corporation tax?

MR. WALKER: That is right.

THE CHAIRMAN: Thank you. Now, we come to this matter of the Swedish reserves. We have heard about this from a number of people. We know a little about it. I expect to be in Sweden in a couple of weeks and we will find out more about it. My understanding is there is some doubt as to whether it is quite as successful as advertised.

You make the statement here that the benefits from that in Sweden have been substantial. I can't remember where you made that statement. I think you said it.

COMMISSIONER GRANT: Page 18 of the brief.

THE CHAIRMAN: In the second last paragraph, second sentence:

"They proved of significant benefit in stimulating private investment and

G2

maintaining Swedish employment in the face of declines elsewhere."

Is that supported from a text?

MR. WALKER: Yes, that was taken from the Corporate Income Tax in Sweden of which I will give you a copy if you so desire.

THE CHAIRMAN: I would like it very much, thank you. No. 8:

"We recommend to your Commission that a recommendation go to all the provinces in Canada that the provincial governments co-operate when imposing provincial sales tax or that a tax rental arrangement be made between the Provincial Governments and the Federal Government to collect the required sales tax through existing Tax Acts."

The first part of that, "the provincial governments co-operate when imposing provincial sales tax" - that presumes a lack of co-operation at the present time. I guess that is borne out by the fact that when a resident of a province buys in another province the provincial tax is not collected; is that true?

MR. WALKER: What we have in mind here is with respect to tax; hospitalization tax, as we have it in Saskatchewan, or the sales tax, as it is called in Quebec and Ontario and so on - the matter of collecting with provinces along the border, where a province such as Manitoba and Alberta doesn't have a tax, Saskatchewan does. Ontario has a tax, Quebec has it - it is a matter of

G3 collecting along the borders.

We want some arrangement between the provinces which would be more effective and give the provinces more relief, the consumers more relief, along the borderlines.

COMMISSIONER WALLS: Can you tell me: do the mail order houses deduct the tax of the province when they ship out?

MR. WALKER: In most cases I believe they do. I think there is no difficulty, no criticism with mail order houses in that respect.

COMMISSIONER WALLS: I see. The implication here - and I am not sure that I have interpreted what you mean - when you talk about a joint collection under (b) of federal and provincial sales tax, were you visualizing a moving forward of the federal tax from the manufacturers' level to the retail level?

MR. WALKER: Not with respect to the brief we have submitted here. We were making the suggestion to you people; that possibly you would have this brought up in other meetings with respect to this particular problem, and possibly some other briefs would suggest some method that the problem could be overcome with respect to the difficulty in each province.

COMMISSIONER WALLS:

We have had a lot of presentations on this matter, and in some there is an accusation that with the present tax there is a certain amount of pyramiding. Do you think in those areas it is of advantage or disadvantage if the federal sales tax is moved forward from the manufacturers' level to either the

G4

wholesale or retail?

MR. WALKER: From a personal point of view I am of the opinion that it would best be placed at the retail level; that it would lower the cost of merchandise to the consumer.

THE CHAIRMAN: You can't speak for your Association?

MR. WALKER: No, I can't speak on that matter.

THE CHAIRMAN: Your Association must have discussed it.

MR. WALKER: They haven't discussed this matter yet.

THE CHAIRMAN: I hope they will, because it is very important, I think, and certainly retailers would and should have an opinion on this.

MR. WALKER: Yes.

THE CHAIRMAN: It is a matter of current discussion across the country. We have heard it several times. I hope we get everybody's view.

MR. WALKER: It would have the ultimate effect of a slight lowering of costs.

THE CHAIRMAN: Anything else? Mr. Walker, we appreciate very much your submission. We understand it, I believe. We have asked you all the questions we have noted. Would you have anything further you would like to say to us?

MR. WALKER: No. Thank you very kindly, Mr. Chairman, lady and gentlemen.

THE CHAIRMAN: Thank you very much, indeed, gentlemen, for coming this morning and making this

submission and assisting in our job. We are glad to see you.

Mr. Secretary?

THE SECRETARY: Mr. Chairman, the next brief is being presented by the Hotels Association of Saskatchewan. Mr. J.R. Freestone, who is President and Managing Director of the Association is here this morning and will speak to the brief. Associated with him is Mr. H. Boyce, a member of the Board of Directors. I would like to enter this into the record as Exhibit 173.

--- EXHIBIT NO. 173: Submission of the Hotels Association of Saskatchewan.

SUBMISSION OF THE HOTELS ASSOCIATION OF SASKATCHEWAN

Appearances: Mr. J.R. Freestone
Mr. H. Boyce

THE CHAIRMAN: Thank you, Mr. Secretary. Good morning, Mr. Freestone and Mr. Boyce. We have received your submission and reviewed it. I think we will have a few questions for you. Before doing so, is there anything you would like to say to us?

MR. FREESTONE: Mr. Chairman, if I might first ask that the appendix be changed to show reference to Section 493 instead of Section 480. We had this prepared by chartered accountants and they, unfortunately, used an old copy of the Act and quoted the wrong section of the Act.

THE CHAIRMAN: They always make mistakes, don't they?

G6

MR. FREESTONE: That is the City Act; 493 rather than 480. Would you care to have me read the summary, Mr. Chairman?

THE CHAIRMAN: The summary?

MR. FREESTONE: It actually is in our brief. The main purpose of our brief is summarized there to suggest that all others should be placed in the same position as hotels are today.

THE CHAIRMAN: By all means.

MR. FREESTONE: "The Hotels Assocation of Saskatchewan feels that the present tax-exemption privileges are too great in scope, and that many groups who were once qualified for tax exemption no longer are, by virtue of the fact they are carrying on commercial activities in direct competition with taxpaying hotels. A large amount of tax revenue is being lost by the diversion of business away from taxpaying hotels into tax-exempt premises. Also, if this business which is being diverted was handled by the hotels, they would undoubtedly have to engage more staff, which in turnwould increase tax revenues by reason of there being more people gainfully employed.

It is recommended that each taxing body require all tax-exempt organizations to submit to them annual audited financial statements showing full details of sources of revenue, disposition of revenue, assets held and surpluses accumulated. These statements should be reviewed yearly, and tax exemption be granted on a yearly basis where warranted. However, in no case where an organization is engaging in commercial activities should tax exemption be granted."

G7

THE CHAIRMAN: Thank you very much. This recommendation of yours implies a change in the law so as to exclude from tax exemption commercial activities and it also suggests a means of enforcing it; at least, of review of financial statements. Is it perfectly clear as to when an organization engages in commercial activities? I suppose the distinction between "commercial" and "non-commercial" is where one serves the members of an organization as opposed to the general public.

MR. FREESTONE: We find in some cases they even have brochures printed advertising their accommodation is available for banquets, wedding receptions, conventions and the like of this. These are distributed from their place to the public in general and anyone can 'phone and make a reservation or go in and arrange for this type of function to be held in their building.

THE CHAIRMAN: That is an easy test of commercialism, I would think. That is pretty apparent.

MR. FREESTONE: You also have private clubs, golf clubs. Their members will probably arrange for a large function and the people who attend probably have nothing to do with the golf club in any way. They are not members of the private club. They are making use of the facilities.

THE CHAIRMAN: Surely what the member is doing is entertaining his close friends or are you indicating that he is probably running a dinner or lunch and that the people are, in fact, paying for it?

MR. FREESTONE: No, in some cases these are not merely very close friends. We will say they are

G8 entertaining business associates from other parts of Canada that come into the province. They use these facilities for putting on these various things. I am not suggesting a golf club - many of these ---

THE CHAIRMAN: I must say I suppose we all do that. Certainly I do. I really think of it as being an extension of my own home. When does it cease to be an extension of the home and become a commercial activity? The line is a very difficult one to draw.

MR. FREESTONE: It is difficult to draw, but at the same time if there is a profit and they are able to apply that back in and give greater facilities for its members - somebody must be paying for this in some way or the other.

2 When we have added revenue in our hotels through the fact we have gone out and promoted our business and managed to garner extra business our revenue goes up and we have to account for that at the end of the year and pay taxes.

THE CHAIRMAN: I am not arguing with that because I sympathize with it, generally. I am trying to find out where one comes in and where one leaves this situation. It is perfectly easy to talk broadly about commercial activities. What are commercial activities? How broad should the net be? Where should one draw the line? I tried to distinguish between an extension of one' home, although I suppose you could say when one entertains in one's own home he saves money, instead of going out to a restaurant, and puts that back into the bank account and improves his own financial position.

G9

I think that situation probably extends to clubs which are used for personal purposes. I don't know quite where the other step is. I would like to know what you think.

MR. FREESTONE: We have no quarrel withmembers entertaining, as you are suggesting. It is when they advertise in the papers or advertise by means of printed mail inviting the general public to make use of the facilities for functions - this we think is in the commercial field, and we don't think it is fair competition for hotels to have to face.

As we have mentioned before, the hotels, by virtue of their licence and the permits under which they operate, they have to meet many, many higher standards than would some of these other people who are getting these things but not having to meet standards in order to be available to have the same functions.

THE CHAIRMAN: Would you stop at the test of advertising? Would you say only operations are commercial which are advertised to the general public?

MR. FREESTONE: We are quite in agreeme nt. We would like to see that stopped; that part, at least. What they say to their members to get money from their members is their business.

COMMISSIONER GRANT: In other words, Mr. Freestone, you have no objection, really, to the individual member of a club doing personal entertaining in his club?

MR. FREESTONE: No.

COMMISSIONER GRANT: Regardless of how many might be involved. You might frown upon business

G10 entertaining but you are not prepared to outlaw it, but you do draw a line at the point where they solicit the business from the general public?

MR. FREESTONE: That is right.

COMMISSIONER WALLS: What is your attitude towards the church women's groups who, in order to raise funds for good works, put on catering to groups who may not necessarily be members of that particular church?

MR. FREESTONE: We feel quite strongly against this. In the first place, with the tax exemptions in most cases granted to places of public worship, and these functions - a great number are held in the Parish Hall or adjoining building, and we feel it wasn't intended that they should be in this business and if you were to see some of the notices that go out, see some of the functions conducted in these places, you will find the functions held in some church halls, many meetings, banquets, father and son banquets. I don't mean necessarily that they are all members of the congregation either. It might be another organization that is having a father and son banquet.

MR/dpw

COMMISSIONER WALLS: The measuring stick on advertising, then, would not apply to these places. That is the point. You say that you would be satisfied if people who advertise would then be considered as commercially operating catering establishments.

Now, these churches do not do any advertising, do they?

MR. FREESTONE: No, I don't think they do any advertising. I think in most cases people will go and shop around and ask them for a price for a meal, or whatever it may be, in their organization, and, of course, with the lack of overhead that they have, why they can certainly give them a much better price than an hotel can.

THE CHAIRMAN: We are seeking lines of distinction. You have set up one measure - this is advertising - as being a distinction between commercial and other activities. It doesn't seem to us that with regard to the women's group we are speaking of, that advertising would take care of your difficulty.

MR. FREESTONE: No, it probably would not, in this particular instance. Advertising by these others, by these fraternal clubs, and the likes of this, it would have some effect on it, but on these others, they either are going to be in commercial business or going to have this tax exemption. They cannot have both.

THE CHAIRMAN: How do you decide when they are in a commercial business?

MR. FREESTONE: I would suggest any church that is running this type of function for the means of greater funds being accumulated in their church, that they are in

H2 the commercial business.

COMMISSIONER MILNE: I don't want to add fuel to your fire; I hope I am not going to say something wrong here, but I feel fairly strongly about this particular point that you have just raised, because I think that the women's groups, and this is possibly an area I have a little knowledge about, in churches, where they are putting on a dinner or banquet or luncheon, or supper - sometimes even have entertaining for a wedding group. Now, I think that the motivation with this type of activity with another that I will mention in a minute is the same; the motivations are parallel on the one I will contrast.

I think that the net proceeds, if you call them profits, are not too significant. Certainly, the women work hard. They do the work themselves. They provide most of the food and do the serving.

Now, there is very little, I must grant that, in the way of employee help. There is always some. Now, what is realized, and we will call this net proceeds, are almost entirely given away. They are used for charitable purposes outside of their own church, possibly within the community or the country or in foreign countries.

Now, there is another portion, possibly, that will be used to provide something in that church that is felt to be a necessity. Sometimes it's an organ. I don't need to go on with that.

The other point - and this is the thing that puzzles me at the moment, because what we have just spoken about has really no advertising. Now, the same motivations come to these church women when they have a silver

H3

tea or a coffee party. Very often these are undertaken in downtown department stores where everything has been purchased.

Now, here is solicitation. Cards go out to the general public and they are invited to come and give, but very often the money that would be received, that is, net proceeds comparing the one to the other, will be very little different.

MR. BOYCE: Mr. Chairman, if I may be permitted to comment. In reply to Mrs. Milne, I think it is fair to say that we are not quarrelling with those small functions such as Mrs. Milne mentioned, but we are opposed to, shall we say, wholesale conventions and banquets that are held in church halls specifically by people in the hundreds that are completely outside of the church organization whatsoever.

They offer their service to the public. They may not advertise, perhaps, in the press, but they may do it in other ways. Their services are available to the public. I have in mind, for instance, a national convention that met here a short while back and I happen to have the program.

The delegate registration fee was $25. It was a three-day convention. The program showed what the delegate would receive for his fee, and that is three days. It was a breakfast here, a luncheon there, a banquet somewhere else, and of all the functions only one noonday luncheon was held in a taxpaying building. Only one. The rest were in church halls, veterans' halls, and other places, non-taxable places.

COMMISSIONER WALLS: You do see our difficulty,

H4

though, in trying to define in an Act what shall be taxable and what shall not be taxable? That is the guidance we are looking for.

You have a situation like this with liquor. If you are going to have a banquet and you want to serve anything, you get a temporary banquet licence. Now, that is non-taxable. Institutions, if they are going to serve to above a certain percentage of their own members, why could they not take out the equivalent of a single shot tax, you might say, or licence much along the lines of a liquor banquet permit?

MR. BOYCE: Of course, this is the thing that would have to be worked out but we feel that the wholesale catering and servicing of the public at large was never intended when these organizations were granted tax exemption privileges.

THE CHAIRMAN: We recognize the principles you have put forward, sir, and, of course, our difficulty is to define exactly what area they extend into. In a broad way, certainly, we can understand your complaint, but when it comes to drafting a recommendation for a change in the tax law, should that be what we decide, we haven't any idea now. We would have to say what we think this should be applied to; to those people who advertise and, if so, there is general advertising, advertising in the newspaper, and so on.

Advertising is, by itself, a little vague. Is advertising people running around the streets? I am not sure. Perhaps advertising is enough, but I think, as you make clear, that it has not taken care of the whole problem.

H5

Where else should we go?

MR. FREESTONE: Perhaps it might be better to go the other way. That is, not try to stop it for people who do advertising, but for anyone who does enter into this business of selling to other than their own members or, say, in the churches, their own congregation. Then if they are entering into this field, they are in a commercial business.

THE CHAIRMAN: Perhaps so.

COMMISSIONER WALLS: I believe in the United States legislation they did not include church groups.

MR. FREESTONE: They are still studying that, Mr. Walls. Churches, Y.M.C.A. and Y.W.C.A. They haven't got down to deciding yet in the Internal Revenue Department but all others, where they enter the commercial business, they have taken this away from them, the tax exemption.

THE CHAIRMAN: I think we understand each other. If you have any further thoughts along these lines, please send them to us. We have got to consider this matter. I can assure you we will.

MR. FREESTONE: We will be glad to do that.

THE CHAIRMAN: Thank you very much, indeed, for bringing this before us today.

MR. FREESTONE: Thank you, sir, for the opportunity to be here.

THE SECRETARY: Mr. Chairman, I have a number of briefs I would like to enter into the record. There is a brief submitted here from Mr. Kenneth Pattison. Mr. Pattison is not present. He did forward, and I received

H5 it in this room here this morning, an additional supplementary brief to his original brief. I enter both into the record as Exhibit 174.

--- EXHIBIT NO. 174: Submission of Mr. Kenneth G. Pattison.

THE SECRETARY: Also received just last night a brief from the Saskatchewan Wheat Pool Employees' Association, which I enter into the record as Exhibit 175.

--- EXHIBIT NO. 175: Submission of the Saskatchewan Wheat Pool Employees' Association.

THE SECRETARY: A brief, Mr. Chairman, which you haven't had a copy of yet, nor have any of the Commissioners; it was just received here in this room. A brief from a Mr. J.M. Reid of Regina. I will enter this into the record as Exhibit 176. The usual distribution will be made.

--- EXHIBIT NO. 176: Submission of Mr. J.M. Reid.

THE CHAIRMAN: Thank you, Mr. Secretary. We will stand over until Monday at 9.30 in Winnipeg.

--- Adjournment

ROYAL COMMISSION

ON

TAXATION

HEARINGS

HELD AT
WINNIPEG
MAN.

VOLUME No.:
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MR/dpw

ROYAL COMMISSION ON TAXATION

Hearing held in Room 200,
Legislative Building,
Winnipeg, Manitoba, on the
26th day of August, 1963.

COMMISSION:

MR. KENNETH LeM. CARTER -- Chairman

MR. J. HARVEY PERRY

MR. A. EMILE BEAUVAIS

MR. DONALD G. GRANT

MRS. S.M. MILNE

MR. CHARLES E.S. WALLS

LEGAL ADVISER:

MR. J.L. STEWART, Q.C.

RESEARCH DIRECTOR:

PROF. D.G. HARTLE

SECRETARY:

MR. G.L. BENNETT

ANGUS. STONEHOUSE & CO. LTD.
TORONTO ONTARIO

ROYAL COMMISSION ON TAXATION

HEARINGS HELD AT THE CITY OF WINNIPEG, MANITOBA

August 26, I963

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Winnipeg, Manitoba

The Winnipeg Chamber of Commerce

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Winnipeg, Manitoba

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--- On commencing at 9.30 a.m.

THE CHAIRMAN: Mr. Secretary, I think we can commence. It is 9.30.

THE SECRETARY: Good morning, Mr. Chairman and Commissioners. The first brief to be presented in Winnipeg is, fittingly, from the Winnipeg Chamber of Commerce. Mr. Eric N. Wright, Chairman of the Committee of Public Finance and Taxation is here this morning with three colleagues, and he will speak to the brief.

I would like to enter this brief into the record as Exhibit 177.

--- EXHIBIT NO. 177: Submission of The Winnipeg Chamber of Commerce.

SUBMISSION OF THE WINNIPEG CHAMBER OF COMMERCE

Appearances: Mr. Eric N. Wright, C.A.
Mr. W.C. Newman, Q.C.
Mr. E.C. Groff
Mr. Evan McCormack

THE CHAIRMAN: Thank you, Mr. Secretary, and good morning, gentlemen of the Chamber of Commerce. We would like to examine your submission, which we have all read, but before we start doing that, I would just like to say we are delighted to be in this City of Winnipeg.

I have always felt that Winnipeg had a great interest in national affairs and some very bright and imaginative people. I would be surprised if we did not find some good answers in this City. Thank you very much for the interest you are showing in our job.

Mr. Wright, you are leading this delegation?

MR. WRIGHT: Yes, sir.

THE CHAIRMAN: Is there anything you would like to say to us before we start an examination of your submission?

MR. WRIGHT: I have a few remarks, Mr. Chairman, that I would like to make prior to the examination of the brief.

Before I get to the business at hand, Mr. Chairman, I would like to introduce my colleagues with me. Mr. Groff, who is President of the Winnipeg Chamber of Commerce. Mr. Walter Newman, Q.C., who is Vice-Chairman of our Committee, will assist me in answering the questions and Mr. Evan McCormack, the Executive-Secretary of the Winnipeg Chamber of Commerce.

Again, before getting to the business at hand, Mr. Chairman, I have been asked by Mr. Groff to extend to you and the members of your Commission and your staff a very hearty welcome to Winnipeg, and to express our hope that your stay here will be informative and pleasant.

THE CHAIRMAN: Thank you.

MR. WRIGHT: It is my privilege to present a brief on behalf of The Winnipeg Chamber of Commerce. I do so in my capacity as Chairman of the Public Finance & Taxation Committee of the Chamber.

It may be appropriate at the start to say a few words concerning the preparation of the brief. The Winnipeg Chamber of Commerce is an association of business and professional men and women numbering over 2,000, organized to promote the common good of the citizens of Winnipeg in particular and of Manitoba and Canada in general. It was incorporated in 1873. The sole source of funds to the

A4 Chamber is the modest annual fee it charges each member and it functions with a minimum of paid staff and a maximum of volunteer effort on the part of those members.

The preparation of this brief has been done on a voluntary basis by a representative group of Chamber members consisting of three who operate their own manufacturing businesses, two employed by others, two practising lawyers, two practising chartered accountants and an economist. This group sought the views of a representative segment of the membership, and deliberated for a period of months.

In developing the brief, we sought first to determine whether there were any problems associated with taxation that were peculiar to Manitoba: we concluded that for the most part Manitoba's problems in the taxation field were basically the same as those facing Canadians elsewhere with the following important exception. Manitoba is vitally concerned in matters of federal-provincial tax sharing.

We understand that this subject is excluded from the terms of reference of your Commission with the result that, even assuming a highly successful conclusion to the work of your Commission, for which we hold the greatest hope, vexing problems will still remain as regards equitable sharing of tax revenue.

We deemed it advisable, under all of the circumstances, to concentrate our brief upon one aspect of the terms of reference of your Commission. We chose the first term of reference dealing with the distribution of burdens among taxpayers because it is the concensus of opinion of

the members of The Winnipeg Chamber of Commerce that this is the basic problem to be resolved. The fact that we have not dealt with other matters should not be construed as concurrence or otherwise in those matters.

In your memorandum to participants you asked that recommendations should be as specific as possible putting forward concrete proposals. This we have done but we ask you to take note that the brief is presented in the form of a "package" and we wish to impress upon you the importance we attached to this. If you reject one aspect of our recommendations, we ask that you reject the whole package because the one depends upon the other. We do not believe that in this age of steadily increasing government expenditures one can intelligently expect an overall reduction in taxes and therefore a proposed reduction in one area has to be offset by an increase in another.

Turning now to our recommendations, in summary we have recommended that the progressive feature of both personal and corporation income tax rates be eliminated, that these taxes be levied at a flat rate and that any deficiencies in revenue which may result in these changes be made up from a broadly-based tax on consumption expenditure along with a broadening of the interpretation of income to include capital gains. Not only do we believe that this will result in a more equitable distribution of the tax load, but it should greatly simplify administration.

We have made a rough calculation that it would eliminate at least a quarter of the existing tax legislation encompassing some of the most contentious and time-consuming areas of the Income Tax Act. Furthermore, the

A6 shift of a greater portion of the tax load to consumer expenditures will make the incidence of taxation more apparent to the taxpayer and should have the effect of exercising a greater discipline over government expenditures and hopefully upon the demands made by the taxpayer on the government.

To deal briefly with our recommendation, when this Committee started its deliberations, we thought to try to equalize the personal and corporate tax rates. We were unable to do this because, to bring corporate rates down to an acceptable level for personal taxation would have resulted in too great a loss of revenue. We have proposed an increase in the basic exemption of $500 to mitigate the effect of our changes upon the low-income earner.

In fact, for a substantial portion of the lower-income group there would be no increase in taxation resulting from the change we propose.

We do not feel that one can discuss corporate taxation without referring to the question of the taxation of co-operatives. We recognize that co-operatives are a form of private enterprise. We recogniz[illegible] they play [illegible] very useful part in the affairs. We also recognize that the arguments for and against the existing taxation of co-operatives have been well made and well documented, and we do not propose to attempt to expand on them here. We simply recognize the fact that co-operatives are a form of doing business and compete with other forms of private enterprise and taxation of the two forms of business should be on an equal footing.

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You may be surprised to receive a recommendation for a capital gains tax from the Chamber of Commerce. We would stress, in making this recommendation, that it is part of the package deal we are recommending to you and if you do not accept one aspect of it, then you cannot accept our recommendation for a capital gains tax.

We felt in proposing a basic and major change in the taxing system, we could not logically ignore capital gains which are not now taxed in Canada. These proposals that we are making on this point result in a loss of revenue, based on the 1960 figures, which were the latest available to us, and on the basis of our calculation some 400 millions of dollars. We believe that this can be made up by an extension of the existing sales tax but we do not refer to it or them both as a sales tax. We think of it as a broadly-based tax on expenditures. We visualize a tax with few exceptions; a tax that includes taxation of services which form a substantial part of our gross national product, and which are not now subject to tax.

We visualize exemptions only for the necessities of life; namely, food and shelter.

In concluding these remarks, Mr. Chairman, may I again refer to the question of Federal-Provincial tax-sharing. This Chamber is seriously concerned that the improvements at the federal level which will undoubtedly result from the work of your Commission could well be seriously compromised by action taken at the provincial and municipal levels. Because of the legal implications involved in this whole question of Federal-Provincial relationships and because of the limitation with respect

A8 thereto in your terms of reference, we have been unable to arrive at any specific recommendation that would have practical value at this time, other than to urge the Commission very strongly to recognize this problem when developing its final recommendations.

That concludes our preliminary remarks, Mr. Chairman, and we will be pleased now to deal with any questions that you may have to ask, and with your permission, I will call upon my colleagues as necessary to help me handle them. Thank you, Mr. Chairman.

THE CHAIRMAN: Thank you very much, Mr. Wright. From now on, unless you wish to do so, there is no need to stand. We will conduct this with the maximum informality, conducive to getting on with the job in a tidy manner.

We, like yourselves, are concerned about federal-provincial co-operation in t xing, and I might say we have done our best to promote co-operation with the provincial Royal Commissions and Committees which, as I think you know, are being established. As far as I am aware, they feel exactly the same as we do about this whole area and I am extremely hopeful that as time goes on we may be able to work closer towards the same goals.

The recommendation put forwardby yourself, indeed, I think depends, to some extent, on federal-provincial co-operation. Now, we are extremely interested in what you have to say and our questions will be directed towards a more complete understanding.

Should we appear to argue with you in this matter, it is merely to bring out the strength of your convictions and your own reasoning for the conclusions that you have

A9 arrived at.

With that, I think we will proceed to our questions. We will all have some, I believe. I would think we might well take your five major points and deal with them as they appear. That is, unless any Commissioner has anything before starting in that line.

The first point deals with the progressive feature of personal income taxation and your recommendation that it become a proportional tax with increased exemption at the rate of 15 to 20 percent. It is undoubtedly this proposal which receives a lot of support in many places. We have seen many papers on this subject in the last year or two.

What I would like to know is whether or not you have taken any look or made an examination of the total impact of taxation; that is at all three levels where taxes are levied in Canada, upon persons with different incomes. What I would like to know is whether this would result in proportional taxes throughout because what an individual is concerned about is total burden of taxation; whether it would, in fact, be progressive or regressive.

I know that examinations of this problem have been made elsewhere. I am not sure that one has in Canada. Yes, one has been in Canada to a limited extent. What would be the effect of this proposal on the progression or regression of Canadian taxation? I don't know at this time. We will know by the time we finish our study. Would you have any thoughts on that?

MR. WRIGHT: We have no thoughts based on extensive research on this problem because we do not have that

kind of research facilities, but we are convinced that the ability-to-pay aspect of taxation will always be present and that the incidence of taxation will fall on those most able to pay it. For the low-income groups, when you shift the load to a consumer tax, and you have basic exemptions for the necessities of life, you are not shifting the load onto the lower income groups.

We think it will always be the higher income groups who will have to bear the major rate of taxation in Canada. Whereas, on this basis that we are recommending, there will be much more freedom of choice in expenditures and in the incurring of taxes, and when we talk about incentives, incentives is a very difficult thing to catalogue and be precise about. It's a question of judgment and it is our best judgment that there will be a great deal more encouragement for incentive through the shifting of this tax load.

COMMISSIONER BEAUVAIS: I have one question. You propose to increase the exemption by $500. Now, the rate right now for the lower income group would range from 11% to 19%, which would mean for most individuals an increase in taxation. Do you think $500 would offset this increase in taxation for the lower income group?

MR. WRIGHT: Based on our calculations, the increase of $500 would eliminate any increase in taxation for the low-income groups. As you go through these mathematics, as you probably are well aware, you can vary that by another $100 and cut off another segment, and it may be that when very precise calculations are made the $500 possibly should be $600 or $550 but on the basis of our

A11 calculations, that is what we have come up with.

MR. NEWMAN: Also, in the last English budget they brought out, they increased the exemption and also eliminated one of the favourable rates on income tax on the lower income level, which is really an example of what we are talking about here.

COMMISSIONER WALLS: Following up the same discussion, we have had the suggestion put before us, I

2 believe by another Chamber, that in deciding on exemptions that you do not go by $500 or $1,000, but rather base them on cost of living index. I would just like to know on what basis you arrived at the use of $500.

MR. WRIGHT: Well, it was simply by mathematics. We sought to find out what increase in exemption would be necessary in order to assure that the effect of these changes we are proposing did not impose a higher income tax in the low-income groups, and through those mathematics we arrived at the figure of $500.

COMMISSIONER WALLS: You mean you worked back from the answer?

MR. WRIGHT: That is right. Our aim was to ensure that there be no increase in income taxes for the lower income groups as a result of the proposals we are making.

COMMISSIONER WALLS: Do you foresee that with a flat rate being put into effect it is going to result in reduction of salaries to senior officials?

MR. WRIGHT: This is a difficult question to generalize on. I think that salaries are based primarily on a man's worth, and I would think if a man is worth

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X dollars, he always would be paid X dollars regardless of what the tax situation was.

I don't know whether I have avoided your question, but that is my own view on it.

MR. NEWMAN: Particularly if corporation tax is also dealt with, sir.

THE CHAIRMAN: I thought you had said later on in your submission that to some extent the high salaries of executives are brought about because of the employer taking part of their tax burden.

MR. WRIGHT: No. I think, Mr. Chairman, with respect, the point we made was that more and more business in Canada is being operated by persons enjoying salaries and that the imposition of tax was becoming more and more a greater burden on these people and destroying incentive.

The words we use :e "In addition to this the growth of large corporate enterprises has produced the professional executive whose income is made up largely by salary."

MR. NEWMAN: May we also suggest, for instance, that Canada does not operate in a vacuum. Certainly, the use of inducements over in the United States has a very important bearing on what is put on the structure here.

THE CHAIRMAN: Do you believe executive salaries tend to be forced upwards by the impact of progressive rates of taxation?

MR. WRIGHT: If the man is worth $10,000 you'. probably have to pay him $15,000 in order for him to take home $10,000 so in answer to your question, Mr. Walls, that part of it we would expect to eliminate in the

A13 e[illegible] that there was a reduction in both corporate and personal income tax. I am sorry I took so long to answer it.

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COMMISSIONER PERRY: Do I understand your basic proposal in regard to exemptions - would the effect of it be that the single exemption would be increased from $1,000 to $1,500, and the married exemption from $2,000 to $2,500?

MR. WRIGHT: In our mathematics we dealt only with the married, and in proposing the $500 exemption and arriving at the amount that was necessary we used the exemption on a married man with two children. This is, to a large extent, the way that statistics that were available to us were presented. It may be when you are dealing with the single person there may be adjustments. Basically we don't think that would alter the proposal that we make, or the conclusion. The $500 is for a married man with two children.

THE CHAIRMAN: Mr. Wright, do you remember the point at which the married man with two children at the rate of schedule suggested here pays the same amount of tax he now pays on the existing schedule?

MR. WRIGHT: Mr. Chairman, I think I can lay my hands on that.

THE CHAIRMAN: What might be called the break-even point.

MR. WRIGHT: A married man with two children with a gross income of $4,000 would pay an additional $6 tax on our proposal. The break-even point is between three and four thousand dollars.

THE CHAIRMAN: Thank you.

COMMISSIONER PERRY: The question of the effect of personal income tax on incentive is a very great mystery

B2 of course. The studies that have been made on this in the United States, quite thoroughly, by well-trained people, seem to reveal that income tax is not an important element in personal incentive. I would be particularly interested in hearing any specific evidence you have had in your own business lives of the effect which you allege in your brief. I grant everyone says it has an effect but efforts to obtain some evidence of this effect don't reveal it. Can you state some more concrete evidence that people knowingly work less than they might because of this?

MR. WRIGHT: Mr. Chairman, it is difficult to get someone to say that they don't work any harder because they will make less if they do. We have no specific evidence we can produce for you as Exhibit A, but we have taken a cross-section of the opinion of the representative members of the Chamber and it is the considered judgment of that group that if a man is earning X dollars and if he earns X plus Y and more than 50% of that goes to the Government he is not going to be as keen to earn that additional Y as he would if the percentage to the Government were less.

On the other hand, he is prepared to pay that same amount in another way on the basis of what he consumes because he, at least, has a choice.

COMMISSIONER PERRY: Do you think he is less keen to the extent he refuses to take a promotion that is given to him?

MR. WRIGHT: I think there are numerous occasions and I don't like to cast any aspersions on Winnipeg or people in the west, but I am sure there are occasions

when westerners have had an opportunity to move east with greater promotion and they have worked out the dollar effect and they are happy to stay in the west.

COMMISSIONER PERRY: I think income tax would be the least striking consideration on an occasion like that.

MR. NEWMAN: I don't know if the increase down in Ottawa is any indication of the impact, but that is the indication.

THE CHAIRMAN: I didn't follow that.

MR. NEWMAN: I was going to say, with the salaries of the Members of Parliament increased and income tax-exempt, perhaps they are meant to make them work harder.

COMMISSIONER PERRY: There are people who say it is dangerous for men to try to work any harder; they are working too hard as it is now. I come back to my original question: this is a mysterious business, but fairly well-documented, authoritative studies that have been made in the States don't bear out this surmise. They came up with the result that the incentives which motivate the business executive are far too complex to be influenced by any one thing, such as income tax.

MR. WRIGHT: We are not only referring to business executives. There is a great group of citizens in Canada working from the so-called low-income group up. This is the major body which we make reference to also.

COMMISSIONER PERRY: You are on the side of the angels; there is no doubt about it. We are looking for specific information.

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MR. WRIGHT: I appreciate that, and I am sorry we can't hold Mr. Newman up and say, "Here is an example."

MR. NEWMAN: I will volunteer.

THE CHAIRMAN: Moving to B: "That the corporation income tax be changed to a flat rate of the order of 30% including provincial corporation tax." Can you enlarge on why you picked 30%? It seems to be low in relation to income tax of other countries. Would you not be conceding a fair amount of tax to the treasuries of other countries which allow credit for Canadian tax?

MR. WRIGHT: Mr. Chairman, we say a rate in the order of 30%. That is a generalization of rates for our mathematical calculations. We have to end up with some specific rate, but whether it should be 25%, 30%, 32%, 35% - this would necessitate further, more specific, studies. What we are really saying is, there should be a substantial reduction in the corporate income tax rate. As was mentioned in our opening remarks we are trying to get the personal and corporate rate as close as possible.

Thirty percent was as far down as we could go. If we had been able to go further we would.

COMMISSIONER PERRY: This rate, inclusive of provincial tax, implies a federal rate of 21%.

MR. WRIGHT: This is right, Mr. Chairman. There are many hands reaching out for taxes and there is only one pocket. We think it is of no solace to the taxpayer to know that the Provincial Government is reaching instead of the Federal, and therefore we say all-inclusive because it would be pointless if your Commission came up with a corporate rate of 30% and the Provincial Government jumped

B5 in and levied 15% tax to pick up this tax, so we just put this in there to make that point.

COMMISSIONER PERRY: The point I am making is: you are dealing with two governments, not just one.

MR. NEWMAN: Also it is inevitable, Mr. Perry.

COMMISSIONER PERRY: Pardon?

MR. NEWMAN: It is inevitable the B.N.A. Act would have to be looked at.

THE CHAIRMAN: Whatever may be the rate you disagree with the principle of existing progression in the corporate income tax?

MR. WRIGHT: That is right, Mr. Chairman.

THE CHAIRMAN: We have heard a certain amount about this and I think opinion is pretty well divided on the subject. You don't believe that the elimination of the progression would impede the development of small companies, I gather from your remarks?

MR. WRIGHT: We don't, Mr. Chairman, provided that the personal rate is reduced. We again refer to the
2 package aspect. You have to refer to the rest of the package.

THE CHAIRMAN: I wonder how far you extended your package aspect. I take it from what you say we can accept the fact that you resist the principle of progression. We can only take that in the context of flat personal rates and reduced corporation rates.

MR. WRIGHT: That is correct, Mr. Chairman. The two go together.

COMMISSIONER GRANT: In arriving at the flat rate for corporations, when you fixed the rate in your

B6 su... ...n at 30% were you influenced by the effect which the rate might have as it now exists as applied to small businesses?

MR. WRIGHT: No, sir. We were trying to get it as close as possible to the personal rate and 30% was as low as we could get it. We appreciate that small businesses, this might increase their corporate tax rate on paper, but small businesses, through the freedom that they have within the limitations of salaries, should be able to avoid most of the greater tax.

COMMISSIONER PERRY: You don't help us so much on the so-called question of double taxation, and I use this only in the common sense that there are two taxes on income in corporate form. In the middle of page 9 the suggestion in parentheses is that corporate income tax might be removed from distributed profit but this doesn't appear to come out as a proposal. Do you have any views as to the treatment of dividends in the personal income tax which you would like to express beyond what is in your brief?

I should say within your proposal; that is assuming we have a 20% personal income tax.

MR. NEWMAN: Mr. Perry, dealing with page 9, what is really suggested there, if I may, is if the dividends of both the co-operative and non-co-operative were free from taxation ---

COMMISSIONER PERRY: I realize the context. I was asking whether this implied any more fundamental trend in your thinking.

MR. NEWMAN: I was going to say a lot depends on

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what base you are following, the circumstances in which you are considering this procedure. For instance, if you reduce the corporate tax and the personal tax to a flat rate it has an impact on what you do with, for instance, the concessions for payment of dividends which we have in Canada, and which has a very real benefit in Canada today against the existing rates.

COMMISSIONER PERRY: I was wondering if you would go further, and I don't want to put words in your mouths, and say that with only the 20% income tax, it would not present a real problem to have dividends subject in full to that tax.

MR. WRIGHT: This is so, Mr. Perry. If you have a flat rate of personal income tax as we mention, somewhere, I think, in the opening remarks it would affect the necessity for a substantial portion of the existing tax legislation that deals with the distribution of income, et cetera, because the impact of taxation wouldn't apply.

If you are looking for expression of opinion of the Chamber of Commerce with respect to double taxation, we don't, as a matter of policy, believe in double taxation.

COMMISSIONER PERRY: I mentioned that I was using this in the common parlance. You pretty well set out the confusion in the previous page, which is well-known.

THE CHAIRMAN: One point I am not clear on, sir; would you state this proposal eliminates the need for dividend credits?

MR. WRIGHT: It should do, Mr. Chairman.

THE CHAIRMAN: You don't state that, do you?

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MR. WRIGHT: We don't state this in the brief because we didn't get into the details and the changes in legislation that would be necessary to implement this recommendation. As you go through the Act, having in mind these recommendations, it eliminates a very substantial portion of several provisions of the Act dealing with personal corporations, distribution of income, Section 105, amalgamations, et cetera. All of those go by the board because they are no longer necessary.

COMMISSIONER PERRY: Isn't this a pretty brave assumption, though, because what people are achieving by those provisions is no tax, and no tax is better than 20%?

MR. NEWMAN: That is a gross inequity which should not be tolerated.

COMMISSIONER PERRY: I don't see you have done anything here that is going to eliminate it.

MR. NEWMAN: Frankly, this brief is directed to the question of taxation, not to the elimination of the defects and loopholes in the present Act. I think we can state we all believe that equity should be restored and these loopholes eliminated which have been grossly abused.

MR. WRIGHT: If you take into account levying of the tax on capital gains or the extension of income to improve capital gains as we say, do you not eliminate a large proportion of these funds which, by the existing procedure, could escape them?

COMMISSIONER PERRY: I think that is true. The only thing that bothers me is your nice little package needs a little more tying together in relation to some of the effects of the individual pieces on each other.

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MR. WRIGHT: We appreciate that, and we are presenting it to you with the hope that your organization will be able to sort out the small pieces, and we think they are relatively small pieces.

THE CHAIRMAN: You recommend the use of consolidated tax returns for corporations. Frankly, I have been a little surprised that there hasn't been a greater demand over the last few years for a return to the principle of consolidated tax returns. Do you think there is a need for that? I gather you do, because you brought it into your submission.

MR. WRIGHT: We think so. We think this would eliminate a great deal of the shenanigans and conniving that goes on now to move losses to a point where they can be charged against profits. We think if an organization loses here and gains there, that it should be able to offset one against the other.

/DPW

We recommend this as a point of equity and common sense.

THE CHAIRMAN: Would you believe that some of your members have been unable to reduce their tax liability to the extent it would have been reduced had they been able to file consolidated returns? We have seen very little evidence of the need for consolidated returns. We have seen a bit; not much.

MR. WRIGHT: I cannot answer you specifically, Mr. Chairman, in terms of some of our members because we have not covered this point specifically, but I am sure that this is the case. I suggest that it possibly has not been pressed as much before you as it might have because it is a fairly technical aspect.

COMMISSIONER BEAUVAIS: Is that on a flat rate, not on different rates?

MR. WRIGHT: At the same rate, sir, and it just comes into the common tax law.

THE CHAIRMAN: Paragraph 23, in discussing the matter of co-operatives, you suggest that they should be taxed in the same way as other corporations. Are you distinguishing there between producer and consumer co-operatives or do your remarks apply equally to both?

MR. NEWMAN: Mr. Chairman, the problem there is, I think, basically, with organizations which deal with retention of capital at reduced rates, and if they go on from there, there is a tendency to proliferate and to expand into other fields, and it is becoming increasingly hard to try and distinguish between producer and consumer co-operatives.

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I think that the difference is to be able to build up capital at reduced rates, at a rate which is less than that of its competition. That is, I think, our problem.

THE CHAIRMAN: The next matter we go to is, I think, sales taxes. You recommend an increase in the tax base by the inclusion of services.

COMMISSIONER WALLS: I have a few questions regarding this. First of all, I note in your first paragraph that you suggest as possible exemptions food and shelter. We have had a number of other suggestions that it should be food, clothing and drugs. The question I want to ask you is: do you consider that a tax on building materials is contrary to your suggested exemption on shelter?

MR. WRIGHT: Mr. Chairman, may I make this clear; that these recommendations are of one category with the other. Under the present tax set-up I do not think we would have any views one way or the other, whether building materials or farm implements, or what-have-you, should be exempt. My own personal view is that there should be a great deal of limitation on exemption on any tax under our proposal, and I would like to get away from the word "sales tax" because the tax we envisage is very different from a sales tax.

Under our proposal there would be a very bare minimum of exemptions which would have to be justified through absolute necessity of maintaining a decent standard of living.

COMMISSIONER WALLS: You suggest the use of

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consumption tax on services. You notice I am getting away from saying sales tax and instead using the term consumption tax. There are a number of questions regarding that. First of all, if you remove most existing exemptions, you would almost have sufficient without going into services at all to compensate for the loss in revenue that you have by the other tax suggestions you have made, so this is quite an important step, the suggestion of tax on services, and I would like, if you could give us any suggestions as to what services you foresee should be taxed.

MR. WRIGHT: We see no exemptions. In other words, everything that a taxpayer consumes, subject to these exemptions that I mentioned for the necessities of life, should be subject to a tax. Through the inclusion of services, which we understand are in excess of $2 billion in the calculation of gross national product, through the inclusion of that in the tax base, coupled with our reduction in personal tax, and corporation tax, it could well bring about reduced sales tax, so-called sales tax, and could well bring that down substantially.

COMMISSIONER WAILS: Yes, but with utilities increasingly getting into the hands of provincial and municipal governments, have you given any study as to whether the Federal Government would be able to impose such a consumption tax on such utilities?

MR. WRIGHT: We have not given study to the legal implications of the imposition of this tax and in singling out one specific aspect of it there may be a problem.

Transportation is a very large service and we

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see no reason why transportation under our scheme of an all-inclusive tax base should not be included.

COMMISSIONER WALLS: Isn't there a lot of freight transportation right now included in manufacturers' sales tax?

MR. WRIGHT: This could be, but when it is excluded, we so include it.

MR. NEWMAN: Mr. Walls, I might suggest it goes beyond the revenue question. It is also a question of equity, which is important in a consumer tax. Certainly, a person that goes to a beauty parlour gets service there. Why should that be exempt while someone else goes and gets some necessary service for himself and his family - - - -

Our problem is there is more than revenue involved. It's a matter of equity in that regard.

Insofar as taxes on utilities are concerned, I might suggest it is more a matter of collection than a matter of taxes. There is nothing to stop the Federal Government imposing a tax based on some other factor but the question of collecting it and getting the information on which to make it an efficient collection might be a problem, especially if the Provincial Government was balky or resistant.

COMMISSIONER WALLS: That was just the point I was getting at. I think when you give consideration to taxing utilities, when so many of them are in the hands of the Provincial Government, there might be difficulties along the line that you suggest.

MR. NEWMAN: I suggest we will never be free of difficulties, no matter what is brought up.

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MR. WRIGHT: We think, sir, the difficulties will relate to 5% of the problem, not 100% of the problem.

COMMISSIONER WALLS: I take it you have no firm opinion as to the type of consumption tax that should be used, or have you given any thought to it?

MR. NEWMAN: The Committee actually were much impressed by this value-added tax in France. We notice also the Committee appointed by the E.C.C. to study the harmonization of indirect taxes has now recommended the substantial adoption of the service-added or value-added tax which brings it merely from a successful demonstration by one country to almost an international tax. Because of the remission of taxes, for instance, on export goods, it becomes a real factor for Canadian exporters to meet, and certainly it has worked well in France. It has been adopted - at least it has been recommended to be adopted by the other six countries in E.C.C. and in Canada here where, for instance, the United States balance of payment problem is going to reduce the borrowing abroad to balance our deficit in trade, we have to either increase exports, decrease imports, or both, and certainly the value-added tax in Canada might have some bearing on the automatic reduction of imports.

It is a big step, and we in Canada know you can hardly take a foreign problem and bring it here and have it work well. At the same time, this is something well worth looking at.

MR. McCORMACK: If I may add a word to that. Some of us from this Chamber met with the National Economic Development Council in Britain earlier this year.

C6 I understand from them they are undertaking extensive studies of the value-added tax and its application in Britain.

THE CHAIRMAN: There is a recent article in the Economist which notes that the United Kingdom Committee on this particular subject of consumption taxes right now is holding hearings and most people coming before them, and who have examined the value-added tax, have not been particularly enthusiastic about its application to the United Kingdom. We will find out a great deal more about it, obviously, before we go very far.

MR. NEWMAN: Dealing with that, it is an interesting problem in Great Britain, as you know, because the car manufacturers who will bear the main brunt, probably, of such a tax, persuaded the British Government to reduce the purchase tax in England in order to be competitive abroad.

If you bring in the service-added tax, it cuts squarely into that and there is particular interest in preserving the benefits which they now have got. I was going to say that you will notice the Executive Association did support it so that you have to have regard to the particular problems in England or the countries you are dealing with, just as we have to have in Canada.

THE CHAIRMAN: We are meeting with the United Kingdom Committee within the next month and we will certainly find out a great deal more about it.

MR. NEWMAN: If I might just finish my remarks.
2 If Great Britain does enter the E.C.C., having regard to this decision of the Committee in harmonization of

C7

in[illegible]ct taxes, I suggest there could be great difficulty for them to avoid bringing in that tax when they are consciously now, I would suggest, preparing themselves to taper into, or to conform with, the requirements that would be made if they did enter the E.C.C.

COMMISSIONER WALLS: But this recommendation within the E.E.C. primarily comes from France and the suggestion has been made to us that perhaps we should not pay too much attention to the success of the value-added tax in France because of the dismal failure that they have had in collecting personal income taxes.

MR. NEWMAN: Well, certainly, with the value-added tax for people who are not particularly noted for being candid - I am not referring to France, of course, but this is where the taxpayer will endeavour to be candid because on his returns the value-added tax has a tremendous factor of making it profitable only to the extent you are honest.

It makes it much easier to collect on that basis. I was going to say this: it has gone far beyond France now when you have this Committee recommending that it be specifically adopted by all six - the other five having their own agreements, and different methods of proposing indirect taxes. It has gone beyond that when they recommend specifically adopting the French value-added tax.

COMMISSIONER PERRY: I don't think it has gone beyond it yet. There is a meeting in November of the Council to consider the proposal that has been made by the Neumark Committee.

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MR. NEWMAN: There is considerable difference between recommendation and adoption.

COMMISSIONER PERRY: As the British found out.

MR. NEWMAN: But the fact that it is a unanimous recommendation makes it a factor of some significance. Certainly, we can't go beyond that right now.

MR. WRIGHT: May we repeat our main point here, Mr. Chairman, and that is that we are talking about broadly-based consumption taxes, in whatever form your suggestions might ultimately indicate it should take, with practically no exemption; the only exemption being to enable low-income earners to maintain a reasonable standard of living.

COMMISSIONER WALLS: I notice you make reference to increased exports. How do you tie that in with tightening up on exemptions? Do you not feel the taxing of machinery for production has an adverse effect on your exports?

MR. NEWMAN: I don't think there is any doubt about that.

COMMISSIONER WALLS: And that, of course, is just the trouble we get into. We start exempting one thing after another. You begin to find there are reasons why it should be on the exemption list and you get back to where we are today with half the products that could be taxed now being exempt.

MR. NEWMAN: There is no simple solution, and the fact that these are put down in a simple form does not mean we ignore it. We are assuming that you have to apply to this the knowledge that there are complications and

C9 they are in the line of suggestions; indications of what the local people feel about them.

MR. WRIGHT: Sometimes, Mr. Walls, exemptions stem from something that took place many, many years ago and people who are exempt have been successful in defending their position over the years. I think that should not be lost sight of.

THE CHAIRMAN: We have had representations with regard to the matter dealt with in your paragraph 28 where you suggest that the taxpayer should be left free to consume or not to consume.

It has been suggested to us that it might be helpful to arrange our tax system in such a way that from time to time he can be encouraged to consume, and at other times he can be encouraged to save and, in fact, a system of taxation has been proposed which would exempt from taxes all savings, and thus put the weight of taxes on consumption, which could be reduced or increased.

You do not suggest that any such measures should be used to encourage or discourage consumption. I presume you people thought that is not the place where there might be economic controls.

MR. WRIGHT: We believe that taxation is primarily to raise revenue required to finance government and as far as - I am not an economist, and I am getting out of my depth, but as far as using taxation to make people save or spend has major dangers, in our view.

THE CHAIRMAN: Are you, in fact, saying it should not be used for that purpose? You are perhaps not going as far as that.

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MR. WRIGHT: In my ignorance, I would not go as far as that, Mr. Chairman.

COMMISSIONER PERRY: I might just say, Mr. Chairman, this brief has some profound economic implications which are not spelled out, perhaps, but to me they shift the whole slant of the tax system heavily in the direction of tax on consumption. I don't know whether I understand the economic process properly or not, but I do not think it is simply designed to provide people with opportunities to work. It is to provide people with the means to consume. Consumption is the ultimate objective of the economic process. You can carry this to an extreme, of course, but it seems to me the direction in which you are moving is towards discouraging the ultimate objective of the economic system; that is consumption.

MR. NEWMAN: I might say, first of all, Mr. Coyne was a native of Winnipeg and he inserted his views upon consumption here and the suggestion has been made that in Canada our consumption may be excessive with regard to other factors. For instance, in regard to the balance of payment problem, particularly in the United States, ~~we have an~~ imbalance there and much of the goods which are imported are for consumption and not production.

COMMISSIONER PERRY: We may consume an abnormal proportion of foreign products, yes, but I do not think we can ever consume too much. This is what we are working for.

MR. NEWMAN: There were certain references in the Anglican Meeting that probably we are thinking too much of the fatness of the calf and it may be suggested

that having regard to our particular circumstances a person's consumption is too much. It is better if we produce more, work harder; we are better able to pay for the goods we consume. Is our ability to pay for it being exceeded by the amount we are consuming now? I think that is the immediate problem. Certainly, consumption, as a philosophical problem, and I am certainly not going to comment on that, although I would like to, is the goal of production but again in Canada, which we are dealing with, is our rate of consumption and the amount of value on our consumption out of line with what we are producing, particularly for the export trade?

D/PB/dpw

COMMISSIONER PERRY: To my mind everything we do is relevant to the ultimate objective of consumption, even saving. We don't save to have money lying around idle; we save so ultimately we can consume more.

MR. NEWMAN: As a principle we certainly don't quarrel with it.

MR. WRIGHT: I wouldlike to answer Mr. Perry's observation this way, Mr. Chairman. Over the years the increased tax rate has continued to have been gotten from the personal income tax and corporate income tax areas and a lesser amount in the other areas. As government expenditures have been increasing, continuing to go up, the load becomes greater to the point where it just can't be continued on that base, and presumably that is why we are sitting here today. Our proposal is not a major transfer of the whole load to another area. It is a shifting of the load to ease the burden that has been created through these other increased government expenditures and you have a better balance.

MR. NEWMAN: I could also point to the Commission on Manitoba's economic future which studied the economy generally as well as tax - for if tax were a draft you can't by generating the draft, you can't make up for bad fuel or a dirty fireplace or a flue that doesn't drop. A number of other things make it up. We suggest in tax, when you have good fuel, when you have a good fire and the flue is open, well, you can increase its efficiency by a well-designed system of draft regulators properly set. This Committee admitted - they had very little to say about taxes as affecting economy because they recognize

D2

it was primarily a federal matter, but again they had the thought it should be shifted from tax on productivity to tax on consumption. That was their view and in Manitoba, if the Government did increase the corporate tax load by 1% and the personal tax load by 6% to pay for part of this hospital service we have - it did point a reminder not only to the federal field but also in the case of the province.

MR. WRIGHT: Mr. Chairman, may I apologize that the economist from our Committee isn't with us. He is on his way to the U.K., otherwise he might be able to answer more specifically some of these questions.

COMMISSIONER PERRY: I am sure he would. I am suggesting, perhaps, you have rushed in, not where the angels fear to tread, but where the economists have been butchering each other for years - the question of the matter of tax on consumption as against savings-investment-production is always the nub of controversy within the fiscal area.

COMMISSIONER GRANT: As your brief unfolds and as you present it to us this morning I wonder if it would be at all accurate to say that you are presenting five proposals to the Commission and you are presenting them, to a large extent, as a theory but based upon what you regard being practical. But that you are not prepared to submit it as being so fashioned that it should not be changed in some particulars. Basically your theory is this: that you can reduce corporation taxes and thereby make it possible for greater distribution of profits by way of

D3 wages, salaries and dividends and you reduce personal tax and thereby make it possible for greater spending because there is going to be more purchasing power available: you feel by broadening the taxpayers' base on commodities that while that is going to raise more money, while it is going to place a burden on people now free from that burden, by lowering the tax rate they are going to be in a much better position to assume that burden through increased purchasing power. You come up with a proposal that all forms of corporate earning should be taxed at the same rate, and that there should be a tax on capital gains.

MR. WRIGHT: That is right; that is what we are proposing.

COMMISSIONER BEAUVAIS: Would you advocate the same rate for capital gains tax - 20%?

MR. WRIGHT: The same corporate rate, yes. The definition of income would be extended to include what is now referred to as capital gain.

THE CHAIRMAN: In this matter of capital gains, where we have now arrived, I think I would just like to confirm a fact which I believe is here: namely, that you don't differ between a tax imposed on a speculator in capital assets as opposed to the investor in such assets, that they both pay such tax: is that correct?

MR. WRIGHT: Yes, Mr. Chairman.

THE CHAIRMAN: Many countries have chosen to have a very definite distinction between the two, some by progression which is based on the length for which the assets are retained and others just distinguishing

D4 between speculators and investors. Do you believe the investor should pay the ordinary rate of tax providing the ordinary rate of tax is low enough?

MR. WRIGHT: We haven't gone into detail here, but we would say that the aspect of time should probably enter into it.

COMMISSIONER WALLS: Would you use the aspect of time, let us say, to a home where the improvements have been made to it by non-deductible expenses to personal income tax, and that the property then has appreciated -- would you put a capital gains tax against that?

MR. WRIGHT: We have dealt with capital gains simply as capital gains -- an extension of income to include capital gain, and if a man buys a home and he sells it at a later date for a profit then this is income.

COMMISSIONER WALLS: Even thought what made it possible was non-deductible expenses in the case of the improvements he carried out, non-deductible expenses on his tax.

MR. WRIGHT: Keeping into account if he has made improvements on his home he would increase the value of his home. If he added two rooms to a $10,000 house that cost him $5,000 the cost of the home is now $15,000, so if he sold that for $15,000 he would have no capital gain. If he sold it for $18,000 then there would be a capital gain.

MR. NEWMAN: I was going to add the Committee didn't explore in any depth. They looked at Belgium

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and others that have tax on capital as opposed to capital gain, and that was an extremely interesting experiment going on in Belgium on the tax on capital at very low rates, as you recall, in selective matters, and certainly with time and so forth. The Committee didn't proceed into it and really suggest, but that is an indication and acknowledgement that along with the tax on consumption there should be a tax on capital gains.

Belgium should certainly be looked at as well, although it falls into a different category.

THE CHAIRMAN: I would like to explore your reason for that a little bit. Some have put it before us based upon the belief it would probably improve the definition of capital gain, or, at least, to make more clear the distinction between capital and income. Others have put it forward as a means of increasing the revenue from taxation. There may be other reasons which I can't think of. What would be yours?

MR. NEWMAN: I might quote a member of your Commission on another occasion when he said, in a very good address, that:

> "At the present time we don't have the advantage of the losses, but usually we have the disadvantage of being taxed on the gains as income."

As far as the elimination, the definition, I don't think that is true. As a matter of fact, the United States got capital gains tax because they thought they were defining income and the Supreme Court held some 10-odd years ago that it did include capital gains of

D6 a certain type. I think that is why the Tucker Commission didn't go into it. It won't make life easier. It will make it more difficult.

I think the question of equity comes in here, and certainly equity falls, unfortunately, if I may suggest the short-term capital gains tax that was in the last budget; I would suggest that it falls fast. Maybe we could get on a sound basis with proper legislation involving what is now apparently taxing capital gain and allows capital loss. It wouldn't be a universal thing at all. It is going to be carefully drawn and carefully studied and again we pass it to the Committee as being more qualified to do that.

MR. WRIGHT: We are not making a proposal that would result in a great deal of legislation and a great deal of work on the point where accountants and lawyers are going to define whether this can be put into the capital gain category that is not taxable. We are talking about tax on all capital gains. Normally, when you talk of capital gains you are thinking of the 60,70,80 percent tax. We are talking about a 20% tax and there would be no exemption right across the board. That is the proposal we would like.

THE CHAIRMAN: You are not suggesting that the measurement of the gain becomes simple, but as long as there is a gain - I think we would all recognize that it is measured by the difference between the value of an asset at the inception of the Act and whatever is realized. Surely that is not easy to do. It is going on in other countries, but still I don't think it would be easy.

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MR. WRIGHT: They undoubtedly will have these difficulties, and I say this with respect, in telling you this: there are well-developed bodies of accounting principles that would enable a fairly equitable determination of what is gain and what isn't gain, whether it was income or so-called capital, so that we would visualize that this would have to be all thrown out because it would be impractical to do it. We do say here we recognize that the collection and assessment of capital gains tax is fraught with administrative difficulties.

THE CHAIRMAN: Estate tax: we have heard the suggestion before that terms of payment should be extended. We are wondering as to the ill-effect of the lack of such terms now, if there is that lack? Are there people suffering real hardship because of this? There is some right in the Act now to defer payment under special needs, I think. We have not received too much substantiation for this kind of request so far.

MR. NEWMAN: Mr. Chairman, I have, for instance, in my own practice, one example; this occurred today. I can't give you the example. It was a case of a corporation where the majority shareholder died without having made proper arrangements to minimize the tax. The estate was called upon to make very heavy payments at the time and it is difficult enough - I should say he not only was a majority shareholder but he also - it had a tremendous impact on the running of the business when you are called upon to raise hundreds of thousands of dollars at the time the mainspring is gone. You have a very real problem, particularly when you have to pay it within six months.

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I am quite sure that the Government of Canada has credit to stand the impact of extending these payments much better than the estate because alternatively they would have to sell the shares to a large American organization. We have heard a good deal of discussion about that problem. Here is one case where they expect that to be paid in six months. I would suggest it would be in the interests of Canada, and in particular, business, to do this. This isn't an isolated case. I don't know of any measure which does more to drive Canadian-owned, family-owned companies, into foreign ownership than this one provision in the estate tax. This is a very real problem and I could give you detailed instances from my own practice.

MR. WRIGHT: That is a problem that could be particular to Manitoba. Manitoba is a province of small business and as Mr. Newman says we have small business where the owner, through the burden of heavy taxes, over his lifetime has not accumulated any reser- in his business. He leaves his business to his widow and the only source of funds is from continued operation of the business and at the moment there is no provision for continued operation of the business so it can get the money to pay the taxes.

MR. NEWMAN: There is no escape. You get a successful - I don't say entrepreneur - say, enterpriser, I think that is a better term, has built up a company successfully and by the time he is 60 years old his company is fairly strong, some liquid reserves, and he is able to do some decent planning with his estate.

E/MR/dpw

He comes into another idea, which involves expansion using that capital he has built up, and the know-how and experience, and this can add a great deal to the economy. If he goes to his tax advisors today, they will say, "You spent your whole lifetime getting out of difficulties. If you plunge into it now, and death comes, it is certain you are going to be in a worse position." It not only involves difficulties after death, but it provides a very powerful inhibiting factor before death, and as Mr. Wright has pointed out, this is quite a factor in Manitoba.

COMMISSIONER BEAUVAIS: Have you studied or examined the question of the taxation of pensions?

MR. WRIGHT: We have not specifically, Mr. Beauvais, but we realize that there is a problem there. As we say, at one part of our brief, we have concentrated on this one aspect that we are presenting to you and this should not be construed as lack of interest or agreement or disagreement with any other aspect of the Tax Act.

COMMISSIONER BEAUVAIS: Thank you.

MR. NEWMAN: They are a real hardship both income tax-wise and estate tax-wise.

THE CHAIRMAN: We have had representations on this point. Mr. Beauvais wanted to know whether you wished to add to that, but I rather gather this is not so.

MR. NEWMAN: Speaking personally, I would say it falls more harshly on the people who can afford it the least; widows and children, and I am sure it was not designed to do this, and therefore it should be

E2 re-designed to avoid any hardship.

COMMISSIONER GRANT: On the question of the disposal of a family business to meet the estate tax, you would agree that that has been anticipated in the past by some owners of such business making a public issue of their stock in which they, for instance, break it down to Class A and Class B; Class B being retaining voting right. Class A being offered to the public on a fixed dividend basis. Is that provision as prevalent now as it was in the past, would you say?

MR. NEWMAN: The family corporation today, you have to be a certain size before the larger brokerage houses will even look at you. If you are thinking in terms of $250,000 or $500,000, you are really on the borderline. If you get up to $750,000 or a million, then they will look after it, but it's these others that we deal with, of which we have more in Manitoba, probably, than in some of the wealthier provinces.

MR. McCORMACK: There is one other aspect that is of special concern, and that is, in many of these cases the businesses have been sold out to some larger national firm. This is not of concern to the Commission, I know, but from the point of view of the development of any business, we are rather disappointed to see these small locally-owned firms become part of the national organization and thus lose its local autonomy.

COMMISSIONER GRANT: There are some who liken our Estate Tax Act to Capital Gains tax; that as we have not a capital gains tax it is only fair that this type of gain in capital should be recognized and a tax

E3 should be paid on it and in no small measure there is a burden, or a responsibility on the part of the owner to foresee this situation and to do what he can about meeting it prior to his death rather than leaving it to his representative.

MR. McCORMACK: Another thing, too, is often the person is very capable of building up his family business, whereas, he is one of God's children when it comes to being tax adept, and he often runs foul of it.

THE CHAIRMAN: Thank you very much, indeed, for completely answering our questions. You have given us a very interesting package. Is there anything further you would like to add, Mr. Wright?

MR. WRIGHT: Mr. Chairman, I might just add this - and this is probably repetitious - but we believe that this is a practical recommendation that will work. We do not submit it to you as a theoretical thing to try out for size. We appreciate that in the practical application of it, and the framing of the economic legislation to cover it, there will be problems but they will not be, in our view, major problems.

We are a little afraid that simplicity is the kiss of death as far as taxation matters are concerned because the experts are inclined to say it is too simple; it won't work. We think this is simple, but we think it will work and we urge you to give it every consideration.

Thank you very much for the opportunity of appearing here.

THE CHAIRMAN: I can assure you we will give it every consideration and continue to examine it. Thank

yo[illegible]uch, indeed. Mr. Secretary, we will stand over for five minutes.

--- Short Recess

THE CHAIRMAN: We are ready to proceed.

THE SECRETARY: Mr. Chairman, the second brief this morning is being presented by the Western Retail Lumbermen's Association. Mr. D.P. Logan, President of the Association is here to speak to the brief. Associated with him are Professor McDougall of Queen's University and Miss Mackenzie.

I would like to enter this into the record as Exhibit 178.

--- EXHIBIT NO. 178: Submission of the Western Retail Lumbermen's Association.

SUBMISSION OF THE WESTERN RETAIL LUMBERMEN'S ASSOCIATION

Appearances: Mr. D.P. Logan
Prof. J.L. McDougall
Miss Mackenzie

THE CHAIRMAN: Thank you, Mr. Secretary. Good morning, Mr. Logan, Professor McDougall and Miss Mackenzie. Thank you for appearing before us, and we will have a few questions for you. Before commencing with our questioning, have you anything that you would like to add to what we now have, or would you like to speak by way of summary?

MR. LOGAN: Mr. Chairman, first of all, I would like to thank you and your Commission for giving us the

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opportunity of presenting this brief this morning and to speak briefly on it.

For some years the Western Retail Lumbermen's Association have been rather concerned about the rapid growth of co-operatives, and the amount of business they are taking over. We feel that this is largely brought about by the unfair taxation advantage which has given them access to tax-free capital money which has promoted this very rapid growth.

I do not want to take more of your time in summary. I believe the report has been in your hands for some time. We will certainly attempt to answer any questions you have for us.

THE CHAIRMAN: Mr. Logan, in paragraph 1.3 you restrict your submission to this matter of co-operatives, and, indeed, you have given us a lot of information about co-operatives which we are very pleased to receive.

You do not deal particularly with the impact of co-operatives on your own industry and I was curious as to that. I am wondering if you would like to add anything about their activities in the lumber business because I believe they do sell lumber. I don't know whether they sell in any volume, and are, in fact, a competitive influence.

PROF. McDOUGALL: Some of them do sell in volume. The problem is to find out where they sell it and what has happened in particular markets. We made a strenuous effort and drew a blank. We just can't get the data because they don't report it.

THE CHAIRMAN: Do they not publish financial

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statements?

PROF. McDOUGALL: They do publish financial statements, but they are never continuous. We tried to do a sampling study in which we could compare the change on the market in particular places, and it fell apart in our hands.

THE CHAIRMAN: The information was not available, I take it?

PROF. McDOUGALL: No. We couldn't get anything we could lean on. You can get odd facts but you can't get a picture that is definite. We know they are increasing but the data is not available.

THE CHAIRMAN: You say you know they are increasing. That is the total volume of consumer co-operatives is increasing?

PROF. McDOUGALL: No, the total volume in the lumber business is increasing.

THE CHAIRMAN: Well, your industry would know whether the effect of that was particularly detrimental to themselves, I would imagine. I guess you would not be here if that were not the case; am I right?

PROF. McDOUGALL: The people who are most severely affected by it are not any longer lumber dealers. They are gone. There has been a sharp reduction in the number of yards.

THE CHAIRMAN: Who are the people most affected by this?

PROF. McDOUGALL: Smaller ones; in the smaller towns.

THE CHAIRMAN: You suggest, going to the total

E7 volume of consumer co-operatives, that their share of the total market is increasing?

PROF. McDOUGALL: Yes.

THE CHAIRMAN: You demonstrate that by figures, I believe, but I was doubtful whether the figures which you submit really bear out your statement. Graph 7 says:

"Retail sales of consumer co-operatives in Canada and in Saskatchewan as a percentage of the respective aggregates of retail sales."

PROF. McDOUGALL: Aggregate retail sales in Saskatchewan; aggregate retail sales in Canada.

THE CHAIRMAN: And in Saskatchewan the proportion of the total has increased, since 1947, but for all of Canad it appears that in the last column which I think is 1961, it is pretty much the same as it was in 1947.

PROF. McDOUGALL: Isn't it that there was a regression between about 1947 or 1948 and 1954 and that they have recovered and are now setting an upward trend? We will know better when 1963/64 data come in.

THE CHAIRMAN: In fact, the recovery has brought them back just about to where they were in 1947.

PROF. McDOUGALL: They are better than they were then, sir.

COMMISSIONER GRANT: From personal observation I would venture the opinion that management of co-operatives has improved in the last number of years. Would that have an effect on the chart? Would the fact that the Canadian sales went into a more severe decline as compared to Saskatchewan between the years 1947 and 1956

7a be [illegible] to mismanagement. Would management be a factor there?

PROF. McDOUGALL: Very much so, sir. I think that the relatively slight decline in Saskatchewan is due to the fact that probably management in Saskatchewan of co-operatives was very much better than generally in the rest of the country and that they then picked up and go beyond and that in the rest of the country the enormous growth from 1939 or 1940 or thereabouts came about because conditions were extremely easy and, therefore, weak management could get by and then as things began to tighten down, the weak people who caused this decline now maybe have corrected it and I imagine they are on the way up again.

COMMISSIONER GRANT: Management in Canada as a whole would be comparable to the management which is present and has been present in Saskatchewan?

PROF. McDOUGALL: I would think so. Naturally I cannot make it as a statement of fact. There is an improvement generally. This is a greater improvement outside of Saskatchewan than in because it was more necessary outside.

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COMMISSIONER GRANT: Thank you.

THE CHAIRMAN: On pages 6 and 7 you refer to certain difficulties in securing information from the Department of National Revenue as to how they dealt with patronage dividends. You apparently did not have satisfactory experience in asking the Department as to how they dealt with this matter. I think this is rather curious because I find that there is a regulation which requires that payments in respect of allocation of the patronage dividend be reported on forms T5 and that the form even has a special part indicating the need to include patronage payments.

PROF. McDOUGALL: I, sir, was the one who went to the office in Regina and this is the report of what happened to me. I then wrote to the Department and asked what happened and I got back a letter saying substantially what you now are saying.

It was sent to the office of the Association with the suggestion that in the light of it they might wish to withdraw this addendum. Unfortunately, due to changes inside the organization it did not come to the attention of the Board. This is a report of what did happen in Regina on that day.

THE CHAIRMAN: At the time you called on them you were not aware yourself of the regulation, I assume?

PROF. McDOUGALL: No, I was not.

COMMISSIONER PERRY: I would just like to ask the witness to say if I am reading the first three or four pages of this brief properly in interpreting them as saying that there is no justification whatever for the

deduction of patronage dividends in the computation of profits subject to corporation profits taxes.

PROF. McDOUGALL: Yes, I think there is no justification whatever. I think that is the position of the Association.

COMMISSIONER PERRY: Doesn't it puzzle you a little bit that in the taxing statutes of every country in the world such a deduction is allowed?

PROF. McDOUGALL: These payments, I think, in Great Britain, and in a report which I wrote to the McDougall Commission I went into this rather fully and the impression that I got from the discussion was that the courts in England got off on the wrong foot and didn't know how to get back on.

COMMISSIONER PERRY: The American law allows such a deduction, too?

PROF. McDOUGALL: Yes, but if you have a corporation which trades in its own name, it trades for profit. Then the profit that is earned is the corporation's profit; it is not a result of trading with its members. It's trading with its members and the general public and, therefore, if you are going to have a corporation tax it should be levied upon all corporations who trade.

I can see why, for reasons of policy, or politics, if you like to put it that way, these exemptions should have been given, but we cannot defend them.

COMMISSIONER PERRY: It strikes me there are a great many variations in other areas. One that always impressed me is the fact that financing through equity capital you cannot deduct these dividends but one that

E10 is financed through bonds can deduct its interest. Basically, the capital structure is for the same purpose and yet there is a very distinct difference in the treatment of the cost of that capital.

PROF. McDOUGALL: But in the case of the interest, this is a dealing of the corporation as a legal person at arm's length with the creditor. Whereas, in the dealings between the co-operative and its members, there is no dealing at arm's length, because those who deal are also shareholders and I think that is crucial.

COMMISSIONER PERRY: It needn't be dealing at arm's length. The principal bondholder could also be the principal shareholder in a private firm. What would you say to the suggestion that a good many corporate disbursements which are allowed are allowed on the grounds that they are meeting a contractual obligation and that it might be quite possible to draft an agreement to pay patronage dividends in the form of a contract having the net effect of income about the same as the cost of green stamps or premiums? These are some of the things which come to my mind when you say that under no conditions are patronage deductions allowed -- these are apart from the basic position taken by the law that there can be such a thing as mutuality and as agency relationship.

dpw

I have deliberately avoided this. They are more or less old hat.

PROF. McDOUGALL: The corporation, it is a legal person. It is dealing for its own profit, and therefore it cannot be acting as an agent of those with whom it deals. If this were a matter of pooling of property and a bulk sale and making distribution it would be one thing, but as you come to the end of the year and cast up all the accounts and determine you have, as a corporation, so much profit, then this is a matter of decision on your part, whether you wish to distribute it in this fashion or not, and obviously you have to take into account the tax effects.

COMMISSIONER PERRY: Do you think the time matters here? Suppose you pay your patronage dividends on Christmas Day, which might be a nice thing to do, incidentally, do you think the fact that you made this allocation of your profit before the end of the year rather than after would make any difference?

PROF. McDOUGALL: Well, equally, if you want to do it in this way, it is perfectly possible for a consumer co-operative to lower its selling price to have no profit, and then to meet its operating capital needs by assessment of the shareholders and knock the rug from under us. The question is: why do they not?

COMMISSIONER PERRY: Can you visualize such a thing as a legitimate charge for the cost of obtaining patronage? This is not very far removed from the cost of advertising, of course.

PROF. McDOUGALL: I am not enough of an

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accountant, sir, to know whether it is customary to capitalize that. If it were done I can conceive it as being something possible, but I think the practice is generally to write off those costs currently even though it may mean a deficit in the year's accounts, and then if and when the profit materializes it becomes profit in full.

COMMISSIONER PERRY: I was just wondering whether we are clear on my question. I was really introducing the thought that it might be possible - or asking you what your views were-as to the possibility of charging against the accounts of a corporation the cost of obtaining its customers.

PROF. McDOUGALL: Yes, I think so, and in the case of the co-operatives it would have, I think, either to raise a great deal more in the form of capital stock from its shareholders or else it would have to make a profit and have this profit subject to tax and use the balance only for the development of additional business. We are not in any sense asking that co-operatives be penalized. We merely say there should be equity as between all those who pay.

THE CHAIRMAN: Professor McDougall, you speak of the possibility of consumer co-operatives reducing their prices if they were taxed and thus avoiding taxable income and the payment of taxes. Should they adopt this practice would it not be more damaging to their competitors than is the existing situation, and, of course, the Government would get no more revenue?

PROF. McDOUGALL: It might well be.

THE CHAIRMAN: If that were so, is there any

F3 purpose to, in fact, imposing taxes upon them?

PROF. McDOUGALL: Sir, the situation has grown up over the last 20 years and it is going to be difficult to repair. I think the position of the Association would be if they have to have their share of the hell to come when you do try and repair them they are willing to take it. They can't go on facing the dangerous growth of tax-free capital which is going to put them finally, totally, out of the running.

THE CHAIRMAN: Do any members of your Association distribute patronage dividends?

MR. LOGAN: No, they don't, not to my knowledge.

THE CHAIRMAN: A few minutes ago, Professor, you indicated some of the small lumber yards had, in fact, gone out of business in small towns. Were you suggesting that this was in any way caused by the co-operatives' competition?

PROF. McDOUGALL: Sir, there are a number of causes. There is a major reconstruction happening in the west today, and the small towns and the small businesses in those small towns are peculiarly subject to the uncomfortable adjustments that are necessary. The existence of co-operative competition has not helped, but it definitely is not a major cause. It definitely is not the sole cause.

THE CHAIRMAN: But you believe it is a cause?

PROF. McDOUGALL: Yes.

COMMISSIONER GRANT: I was wondering if, in your concept of the co-operative movement, if there is any place for preferred treatment or special considerations

F4 for the co-operatives, having regard to the state of affairs which necessitated or brought the co-operative into being?

PROF. McDOUGALL: I don't think I can answer you, sir, unless we have a common appreciation of what brought them into being.

COMMISSIONER GRANT: Well, I would say in the eastern part of Canada that they were born of necessity to alleviate dire circumstances which existed in certain phases of our economy; particularly, I have reference to the fishermen. For my part of the country, I am quite free to admit - and I think any fair-minded person would admit - the co-operatives have done a tremendous job in assisting the fishermen. If we are going to place the earnings or the profits of the co-operatives now on an equal basis with the corporate company, are we not going to take into consideration the early days of the organization and the growth of the co-operatives?

PROF. McDOUGALL: If it is a question of relief of the deeply distressed and the conditions of the Depression of the 1930's, fine.

COMMISSIONER GRANT: I wouldn't say the depth of the Depression. It wasn't necessarily related to any economic term, insofar as years were concerned, but economic conditions which existed regardless of time.

PROF. McDOUGALL: Well, surely the ability to build up capital which they have had over the last - nearly 30 years now - is an enormous degree of assistance. Do you never draw the term to that kind of assistance and if you don't draw the term are you really attempting to perpetrate employment where there isn't very much hope,

F5 any...?

COMMISSIONER GRANT: You would apply the same economics theory to the co-operatives, as, for instance, Adam Smith would apply the question of protection versus free trade?

PROF. McDOUGALL: Sir, you are on my blind side. I am not familiar with the reference.

COMMISSIONER GRANT: You would give protection to an industry which had some hope of being able to stand on its feet but you would remove the protection once it did seem to get on its feet?

PROF. McDOUGALL: Yes, and I can see things being done in the conditions of the 30's which I don't definitely want to perpetrate.

COMMISSIONER GRANT: I am not relating the question to any particular economic cycle. My question had reference to the conditions which gave birth to the co-operative movement in my part of the country regardless of whether it was in 1929 when conditions were good, or 1931 when conditions were bad.

PROF. McDOUGALL: I just wish I had knowledge of the basic facts to follow you as closely as I would like. If it is a matter of trying to perpetrate the shore fishery which is fundamentally an uneconomic method of applying labour, then I say I would rather help people to get out of that occupation than to keep them in it when there isn't any hope of them doing very much in it.

I am willing to go a long way towards retraining movements, or whatever else is necessary; the kind of thing I understand the Government of Newfoundland has done in

F6 attempting to close down the smaller out-ports and concentrate people so there is more of a chance to give the services that are supposed to be necessary under modern conditions. It is hard for those who are compelled to move but it may be harder not to do it.

THE CHAIRMAN: Professor McDougall, would you mind turning to table 6? I am an accountant and the figures here worry me a bit. If you look at your year 1962, the third total is a total of the other three columns; Manitoba, Saskatchewan and Alberta, as I think I would expect to find it.

PROF. McDOUGALL: That is what I hoped was there.

THE CHAIRMAN: Going to your 1961, the total is not the total of Manitoba and Saskatchewan. It is $10 million more.

PROF. McDOUGALL: This will be the figure that ought to be in the Alberta column.

2 THE CHAIRMAN: There is something missing from the Alberta column?

PROF. McDOUGALL: I wasn't able to get data for every year. If you read the footnote, the last line I say:

> "An attempt was made to find the values for other years by subtracting the totals of columns 1 and 2 from column 4. This gave consistent results in 1961 and 1962 but not in 1957 to 1959."

COMMISSIONER WALLS: I saw somewhere else in your brief you mentioned that the federated co-operative only went into Alberta in 1961 or 1960.

Is that not the reason that you have no figure for 1961 and show $14 million sales for 1962?

PROF. McDOUGALL: But the total, sir, included Alberta in all years.

COMMISSIONER WALLS: But these figures here, as I understand it, are figures only of the sales of the federated co-operatives.

PROF. McDOUGALL: And its predecessor co-operatives.

COMMISSIONER WALLS: And its predecessor co-operatives, I see. That is fine. I didn't read that. Along that line have you any figures which would show how much of the federated co-operatives' increase is natural growth and how much is by acquisition of already existing co-operatives?

PROF. McDOUGALL: Well, these are wholesale sales and therefore the whole growth in Saskatchewan, that is under the column labelled Saskatchewan is natural growth inside Saskatchewan. The whole growth in the column labelled Manitoba is natural growth inside Manitoba.

It is Manitoba co-operatives up to 1954 then federated co-operatives thereafter. In Alberta, the 1962 figure is the first one, which is federated co-operatives and the previous data are Alberta co-operatives.

COMMISSIONER WALLS: Well, then, in Manitoba, and more latterly, in Alberta, the predecessor organization could very well have been doing approximately the amount of business that is now credited to the federated; for instance this figure of $14 million for Alberta - have you any figures

as to whether the predecessor co-operatives in Alberta were not already doing approximately $14 million?

PROF. McDOUGALL: I believe it was less. There was a percentage gain. Nothing would please me more than to have the Commission, through its staff, ask for data from the federated co-operatives and from the Saskatchewan Department. I have tried, and they have given me some things and have been remarkably cagey on others. I can ask, but I cannot require. The Commission can require. I would particularly suggest that you enquire about the amount of income actually paid by the consumer co-operatives. It was a specific point I myself raised and I got an answer that was quite clearly contrary to the statutes under which the co-operatives operate, and I couldn't go beyond it.

COMMISSIONER WALLS: I just have one other question: your concern with the rapid growth - you state you were unable to give us anything dealing with your own particular lumber business but there is a breakdown, though, unfortunately, it does not limit itself to lumber; but includes coal, wood and building materials, and I note in the past 10 years the growth is six-tenths of one percent. Would you consider that a worrisome growth?

PROF. McDOUGALL: I would like to see the breakdown and know what the facts are. If coal went down and lumber and building went up you might get the result you hoped.

COMMISSIONER WALLS: I will give you your point there; without a complete breakdown it is not possible, but the same statistics - and I might as well give

F9 you the authority for them: Rising Growth in Canadian Co-operatives by McIver, issued by the Canadian Tax Foundation plus Co-operatives in Canada from the Economic Division of the Federal Department of Agriculture plus the D.B.S. Retail Trade and Its Trends in 1962. The percentage of total co-op sales to total retail sales is being shown as 2% in 1952. Ten years later, in 1961, it shows 2.3%. Would you say that three-tenths of one percent of the total retail business is a worrisome increase?

PROF. McDOUGALL: Sir, three-tenths of one percent on a base of 2% is substantial. If I may refer again to graph No. 7: I am concerned with the direction and scope of movement. I say, yes, this may be small now, but consider how infinitesimal it was when the McDougall Commission was sitting. It is now important. It will be, in some areas, devastating. It won't be universally so. I don't think for a minute, for example, in the next 10 years co-operatives are going to mean much in Toronto or Montreal, but if you look at the places where co-operatives are functioning it is already very important if you are computing margins in those areas.

COMMISSIONER WALLS: The year following the McDougall Commission, the year of the report, 1947, co-operatives had 1.8% of the total retail business as against 2.3, so you have only got one-half of one percent increase since the McDougall report. It wasn't infinitesimal. It was a very substantial encroachment on business.

PROF. McDOUGALL: Perhaps you don't remember the comment I made on graph 7 earlier; that in that period

F10

of the war when goods were in very short supply it was possible for management todbagreat deal, and you see that enormous growth, the rise here on each sale up to the peak, and then as goods came into fuller supply it went down and now you are on the way up again. I am projecting that curve, yes, but I don't know what else I can do given the advantage, the concession of this practical exemption from income tax. They are able to do things which other merchants cannot because they must bear the tax in full.

/DPW1

COMMISSIONER WALLS: There are many interpretations to a graph, and one of the reasons for that reduction in the graph, and I would ask if you would check this up was in 1955, I believe the D.B.S. decided that no longer would liquor and beer be included in their statistics, under miscellaneous classification but would now be included under "food" and that is why there is a drop in the percentage of sales of the co-operatives in the following period, because of the change in statistics.

PROF. McDOUGALL: May I be permitted, then, to examine the facts, sir, and to present a memorandum?

COMMISSIONER WALLS: Yes.

THE CHAIRMAN: We have no further questions, gentlemen. Do you have anything more, Mr. Logan or Professor McDougall, that you would like to say to us?

MR. LOGAN: No, sir. I have nothing to add other than, again I want to express my appreciation for appearing before you and being able to present this brief.

THE CHAIRMAN: I would like to express our appreciation that you have taken the time and the trouble to prepare this very excellent brief that you submitted to us and to appear for our questioning. We are extremely grateful to you and this is very helpful to the Commission. That you very much, indeed.

PROF. McDOUGALL: Sir, may I make one statement? In pagagraph 2.72, on page 18, this leans entirely upon the one year, 1960, and I have prepared a memorandum making not only the comparison as to numbers but comparison as to percentage of sales and total assets going back over the years 1954 to 1960 which completely bear out what

G2

is said here. If the Commission would wish, we will be glad to supply it.

THE CHAIRMAN: We would be delighted to have that. Would you be so kind as to send it to us?

PROF. McDOUGALL: Surely.

THE CHAIRMAN: We will go straight on, Mr. Secretary. We won't break.

THE SECRETARY: Mr. Chairman, the next brief is being submitted by Mr. R.S. Robinson. Mr. Robinson is here to speak to his brief, which I now enter into the record as Exhibit 179.

--- EXHIBIT NO. 179: Submission of Mr. R.S. Robinson.

SUBMISSION OF MR. R.S. ROBINSON

THE CHAIRMAN: Thank you. Good morning, Mr. Robinson. We are delighted to have you before us this morning with this interesting suggestion. Would you care to add anything to what you put in?

MR. ROBINSON: Yes, Mr. Chairman. Chiefly what I want to stress ---

THE CHAIRMAN: Don't stand unless you wish to do so.

MR. ROBINSON: Chiefly what I wish to stress in the submission was the penal effect that the present tax laws have against the professional man by comparison with the businessman. An analysis of the graduated rates of taxes disclosed that at the $6,000 taxable level in the preceding contract, both corporation and professional men will pay the same rate of tax. Commencing thereafter the

G3

inequity increases in the position between the professional man and the corporation. What seems to me to be worse is the fact that the inequity increases as the individual's earnings increase. The result is that at the $25,000 taxable level, where a limited company might pay in the neighbourhood of $5½ thousand in taxes, you will see that the professional man will pay approximately $8½ thousand in taxes.

At this particular level an individual professional man finds himself in the 50% tax bracket and a limited company does not achieve the same exalted position under our tax laws until it earns an additional sum of $10,000.

Now, the thing that concerns me about this is the creation of the position, the manner in which it arose, and it seems to have arisen not through any design of the Parliament of Canada, but rather as a hang-over, you might say, of the English common law of a few centuries ago.

Now, the result of this has been the superabundance of the creation of management companies; all kinds of attempts to syphon essential professional income into management companies. A tremendous amount of time and effort avoiding expenses has been wasted in attempting to save these funds from the reach of the tax inspector.

Now, on a recent trip to Minneapolis, I was enlightened to find out that the laws of the State of Minnesota are presently in the process of being amended to give effect to the type of thing that is embodied in this submission, and I understand from an article that

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was written in the Minneapolis Morning Tribune, approximately 47 of the States of the United States of America are providing relief to the profession in the form in which I request it here.

This is essentially the two or three points I wanted to stress to the brief.

THE CHAIRMAN: Thank you, Mr. Robinson. Your words have a sympathetic reception by some of the professional men up here. One thing that worries us a little bit is, whereas what you propose would result in equity between the professional man and the corporation, it would certainly not provide equity between the professional man and the salaried man with the same income.

Now, would you permit the salaried man to incorporate himself?

MR. ROBINSON: No, Mr. Chairman, I would not, but what I would do here is to place the professional man on the same footing by allowing him to draw his salary from his limited company in the same manner as individuals who essentially are self-employed do through their own limited companies.

In other words, if the professional man was reporting his income through a limited company, he would be entitled to draw any salary from the limited company and be subject in all respects to the same treatment as any other salaried man in respect of his salary. If the limited company, the professional man's limited company, were to earn $35,000 in a year, and the man chose to draw a salary of $15,000, he should be taxed on the $15,000 in all respects the same as everybody else.

THE CHAIRMAN: You and I are at cross-purposes here. When I spoke of the salaried man, I did not mean the salaried man working for himself. I mean the salaried man whose salary was determined at arm's length, working for an employer who was a limited company or an individual, but if a limited company not controlled by himself.

MR. ROBINSON: Oh, I see. I would say this: that the treatment which should be accorded to the professional man in his circumstances should be identical with other taxpayers who own and operate their own limited companies and draw salaries therefrom.

Now, as I understand it, the present taxation laws where a man owns and operates a limited company and draws a salary, the test of the amount is reasonableness and generally the taxing authorities have allowed the individual to draw whatever salary he saw fit and pay tax on it.

As professional men we are probably both well aware of the juggling that goes on when an individual and a limited company are in a borderline practice. In this way, I think there would be no inequity, and the professional man would have the advantages that are open to the businessman.

I do not really understand why a professional man should find himself in such a discriminatory position, and I do not believe that the Parliament of Canada intended this result. It seems to be something that just happened. It has happened over a period of centuries and today we find ourselves in this position.

There has been no great hue and cry from the profession at large, and, as a result, no revisions have

G6 been made to the situation but the effect of this is that a professional man attempting to amass some degree of capital over the top 10, 15 years of his earnings, finds this very severe because it takes from him at his very peak years the capital which will help him in later years as his professional income declines and he wishes to be as active as he is being.

THE CHAIRMAN: In your recommendation, which is that he be permitted to report his income in the same manner as a corporation, it would be necessary, then, to impose on his firm the same rules that it imposes on a corporation, I would assume?

MR. ROBINSON: That is correct.

THE CHAIRMAN: In respect to distribution of surplus and other matters?

MR. ROBINSON: That is correct. I do not believe he should be given the advantages without, at the same time, being subject to the other rules which apply to ordinary corporations. My whole point is merely that he should be placed in a position of equity with, essentially, the rest of the business community. While he is a professional man, he is, at the same time, a businessman. For these reasons I think he should be placed on an equal footing.

COMMISSIONER PERRY: I am just wondering to what extent, Mr. Robinson, your proposal stands or falls on the reduced rate in the lower bracket of corporate taxes. 2 Suppose we were to revert to one rate of 45% or 50%: this would introduce a different set of calculations, would it not?

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MR. ROBINSON: It might, and it might not. It would be essentially the same as the present position where today, depending on where you draw the line, an individual may be better or less well off, depending on how it is handled.

COMMISSIONER PERRY: Obviously, if his marginal rate is above the corporate rate, he is better off, but this would mean that a considerably smaller group would be in that position.

MR. ROBINSON: That is correct. It would be much less attractive to the masses.

COMMISSIONER PERRY: To what extent do you find other professions - you are speaking here in your dual capacity as a lawyer and as an accountant - to what extent have doctors, for example, been able to incorporate in a satisfactory way for the operation of clinics, and similar things?

MR. ROBINSON: What has happened is that many members of the medical profession have incorporated limited companies for the purpose of carrying on any non-medical functions that were associated with the practice. For instance, the handling of x-rays, laboratories; these and many other cases have been incorporated. Also the holding of real estate, and they have been forced into this position because of the heavy reach of the tax gatherer into the upper bracket of their income.

At the same time, it was not too long ago that a case came through the Appeal Board covering the state of a British Columbia doctor who reported all of his income through a limited company and attempted to have

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that taxed at corporate rates and his case, very properly, was disallowed. There was a case of an individual who probably found that he could not move sufficient amounts to a limited company.

This is another aspect of this thing that is unsatisfactory to me because there is a tremendous amount of time and effort spent on this saving or avoiding factor, whereas the time and effort might be better spent in the nation's productivity.

COMMISSIONER PERRY: I think I still have a problem myself growing out of the Chairman's original question: that the salaried man, with, say, a salary of $35,000, might equally be conscious of the advantages of incorporating himself and drawing $20,000 a year.

MR. ROBINSON: That is correct, and in many cases this is attempted on the grounds that it is management services and not salary.

COMMISSIONER PERRY: Would you feel that there would be any reason to hold this to the line you have set up yourself?

MR. ROBINSON: Insofar as the professions are concerned?

COMMISSIONER PERRY: Do you think it could be held to professional people as a device?

MR. ROBINSON: Yes, I believe it could be held that way.

COMMISSIONER PERRY: You can always make the law suit your requirements, of course. I am just wondering whether in time the Government might be pushed on and on to make this a general thing.

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MR. ROBINSON: It is possible, Mr. Perry.

COMMISSIONER GRANT: What about the professional people employed in a corporation who employ them in their professional capacity?

MR. ROBINSON: These men again are essentially salaried men within this concept that we are discussing. Whereas I am speaking solely to the position of the self-employed professional man.

COMMISSIONER GRANT: I know, but you are separating, for instance, a lawyer that is in the employ of the Canadian Pacific Railways from his brother who is practising at the bar.

MR. ROBINSON: That is correct, because I believe the situation is somewhat different.

COMMISSIONER PERRY: I must say one of the things that intrigued me about this brief, it is one of the few we have yet had which has something good to say about corporation profits taxes.

MR. ROBINSON: From the professional man's point of view, it is attractive because the professional man finds himself in a peculiar tax corner. I do not think that the Government of Canada has taken the professional man and said to him, "You belong in that corner." This is something that has arisen over a period of years without too much thought being given to it.

THE CHAIRMAN: We understand your point, Mr. Robinson, and, as I said earlier, some of us are undoubtedly sympathetic to a reduction of personal taxes. Whether this is the way to achieve it or not, I haven't any idea. We will clearly be considering this matter,

G10 along with many others as we progress, and we are very grateful to you for letting us have your thoughts on this problem.

MR. ROBINSON: Thank you, Mr. Chairman. I am grateful for the opportunity of appearing this morning.

THE CHAIRMAN: Thank you. Mr. Secretary?

THE SECRETARY: Mr.Chairman, there is just one brief to enter into the record. A brief was received from Professor Charles P. Bennett, Norgate, Manitoba, on the 11th of June in our office at Ottawa. I would like to enter this brief into the record, on behalf of Professor Bennett, as Exhibit 180.

--- EXHIBIT NO. 180: Submission of Professor Charles P. Bennett.

THE SECRETARY: That is all for this morning, Mr. Chairman.

THE CHAIRMAN: We will stand over until tomorrow morning at 9.30.

THE SECRETARY: At which time the Manitoba Medical Association and The College of Physicians and Surgeons of Manitoba will appear.

--- Adjournment

ROYAL COMMISSION

ON

TAXATION

HEARINGS

HELD AT
WINNIPEG
MAN.

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ROYAL COMMISSION ON TAXATION

Hearing held in Room 200,
Legislative Building,
Winnipeg, Manitoba, on the
27th day of August, 1963.

COMMISSION:

MR. KENNETH LeM. CARTER -- Chairman

MR. J. HARVEY PERRY

MR. A. EMILE BEAUVAIS

MR. DONALD G. GRANT

MRS. S.M. MILNE

MR. CHARLES E.S. WALLS

LEGAL ADVISER:

MR. J.L. STEWART, Q.C.

RESEARCH DIRECTOR:

PROF. D.G. HARTLE

SECRETARY:

MR. G.L. BENNETT

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ROYAL COMMISSION ON TAXATION

HEARINGS HELD AT THE CITY OF WINNIPEG, MANITOBA

August 27, I963

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--- On commencing at 9.30 a.m.

THE CHAIRMAN: Mr. Secretary, I think we have reached 9.30.

THE SECRETARY: It is 9.30. Good morning, and good morning, Commissioners. The first brief this morning is a combined brief being presented by The Manitoba Medical Association and The College of Physicians and Surgeons of Manitoba. Here to speak to the brief this morning are Drs. R.L. Cooke, L.R. Rabson and M.T. MacFarland. Dr. R.L. Cooke sits in the centre of the three doctors. He is the Chairman of the Economics Committee of the Association, Medical Association of Manitoba. He is also Chairman of the Finance Committee of The College of Physicians and Surgeons of Manitoba. On Dr. Cooke's left is Dr. L.R. Rabson, first Vice-President of The Manitoba Medical Association, and on his right, Dr. M.T. MacFarland, who is the Executive Director of The Manitoba Medical Association and Registrar of The College of Physicians and Surgeons.

I would like to enter this brief into the record as Exhibit 181.

--- EXHIBIT NO. 181: Submission of The Manitoba Medical Association and The College of Physicians and Surgeons of Manitoba.

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SUBMISSION OF THE MANITOBA MEDICAL ASSOCIATION AND THE COLLEGE OF PHYSICIANS AND SURGEONS OF MANITOBA

Appearances: Dr. R.L. Cooke
Dr. L.R. Rabson
Dr. M.T. MacFarland

THE CHAIRMAN: Thank you, Mr. Secretary. Good morning, Dr. Cooke, Dr. MacFarland and Dr. Rabson. I hope that you are comfortable over there. I have taken it upon myself to suggest a re-arrangement of the room. I have removed us from the higher dais. Now, we have had our pictures taken I think we ought to be heard rather than seen. The acoustics weren't good yesterday.

What you have put before us, really, consists of two submissions. I assume that you would propose to go right through the two as though they were one. You are all three dealing with each of the submissions, I believe?

DR. COOKE: Yes, sir.

THE CHAIRMAN: Well, we have questions to put to you, but before then, Dr. Cooke, is there anything you would like to say to us?

DR. COOKE: Well, sir, may I welcome you to Winnipeg on behalf of the doctors of Manitoba, and thank you for the opportunity to speak to you. We have certain elaborations of our recommendations that we would like to make; brief elaborations.

On page 2 of the brief our list of recommendations from the Manitoba Medical Association, which is a division of the Canadian Medical Association. Item 1 is a recommendation that is also recommended by The College of

A4 Physicians and Surgeons and we would elaborate that under the second half of the brief.

Item 2 is a recommendation that was made to the Royal Commission on Health Services in this room. We are prepared to elaborate on that in accordance with any questions you might wish to ask. We would like to emphasize that it is our opinion that tax funds should be directed to areas of need and that we don't wish to see tax funds directed to provide medical care for the self-solvent and self-responsible citizens for several reasons. One is that we feel it would inflate the cost and consumption and demand for medical care if the responsibility were erased.

Secondly, we feel, as an essential part of democracy, that a self-responsible, self-solvent citizen should retain as much responsibility as is feasible. One could elaborate at greater length on that.

Recommendation No. 3, we would suggest that the present method of calculating medical expenses for income tax purposes is a hang-over from years gone by when a person's medical expenses varied greatly from year to year and the amount paid out might be large one year and small the next. Today a false situation exists in which the insuring agent reports the amount they paid out on one's behalf and they report in accordance with a fee schedule which might not be fully paid.

In this province pro-rating exists and 70 to 80 percent is paid, and really it is a false figure that is given. We suggest the time has come when the actual amount of money paid out by the citizen should be the figure reported; that is any premium for a prepaid scheme

A5 or the fees he pays if he doesn't have a prepaid scheme.

In other words, the procedure could be brought to an honest representation of what has happened. We note that while other bodies have suggested the 3% floor be abolished, we debated this and decided not to recommend this. If you contemplate the 3% floor as it exists today a low-income person with deductions for family and children will have a taxable income of such a size that the Manitoba Medical Services premiums will allow him some deductible amount over the 3% so he is getting income tax income for buying prepaid medical care.

If you abolish the 3% floor you would, in fact, be giving the high earner above what you give the low earner if you abolish the 3%. Therefore, we decided not to put that in as some other people have. The high earner, if you abolish the 3%, would get a gift of 40 or 50 dollars, or percent, when the low earner wouldn't.

All we ask is, in calculating medical expenses, the actual amount paid by the citizen be used and not a fictitious amount as is today the case.

Recommendation No. 4, the sales tax on prescription drugs be removed. There are two points we would like to elaborate here. One: in this country the sales tax is at the manufacturer's level and therefore in the mark-ups there are a chain of pyramids, and in fact, the citizen pays a certain amount of money which doesn't go to the Government because of the pyramiding.

In the United States, where the federal sales tax is at the retail level, therefore the money actually goes to the Government and no pyramiding occurs. Another

A6

point in this respect: if the Government couldn't see its way fit to abolish sales tax on drugs, if it were to move it to the retail level it could then select certain drugs and exempt them. It is practical from an administrative point of view.

At the manufacturer's level it is not so easy to do.

Item 5: on reconsidering our recommendation, perhaps you would rule on this. Maybe it is beyond your terms of reference, the tariff.

Before we go on to the College of Physicians and Surgeons on page 3 of the brief, I would ask my colleagues if they wish to elaborate on any recommendations on page 2, with your permission.

DR. RABSON: I would just like to say, Mr. Chairman, the third recommendation has another implication which practising doctors recognize, that there is an increased demand for medical care when some third party is paying the bill which becomes a benefit in the hands of the subscriber, and, secondly, it increases the demand for medical care rather than the need for medical care, and lends support to the suggestion that taxation be applied to the actual money spent by the person making out the income tax declaration.

THE CHAIRMAN: Thank you.

DR. COOKE: With your permission we would move to page 13 of the brief which summarizes recommendations of the College of Physicians and Surgeons of Manitoba. According to the Medical Act the College of Physicians and Surgeons is charged with standards in this province, as in

A7 other provinces. We must, therefore, concern ourselves with the quality of medical care as provided, not only by the new graduates, but by the older graduates. Therefore, we recommend, No. 1, that recognition be given to the need for continuing education. This has ample precedent in industry where employers send employees away for training courses, the cost of which is being charged as an operating expense to the industry.

Today, in Canada, the practising doctor cannot go to a refresher course and charge it off as a deductible expense. There was a ruling in a certain case, the reference to which I have, that this is a capital gain and therefore couldn't be charged off. We suggest it is necessary to maintain, let alone increase his professional skill, and should be a normal cost of practice.

We would point out that the College of General Practice of Canada requires its members to take 100 hours of post-graduate training every two years as a minimum. This necessitates them attending formal courses. Hospital appointments with some hospitals depend upon them having such continuing training, and, therefore, is a necessary cost to their professional practice.

We would like to amplify No. 1 also, where it says:

> "Practising doctors to include not only self-employed practising doctors but also salaried doctors."

In the past it has been the rule that the employer has a stake in their education and therefore should pay for their post-graduate course and charge it

A8 off as a business expense. We would suggest that many salaried doctors are employed by non-profit organizations whose budgets are tight and cannot afford to send their men away for post-graduate training. They are also employed by government who, I think, you could label as a non-profit organization whose budget is tight.

We think the formal refresher courses and post-graduate courses are equally important for salaried as well as self-employed doctors.

2 You may be aware, sir, of a recent book analyzin the general practitioners in Eastern Canada, I might say, by Dr. Clute, pointing out the need for continuing education of practitioners. In the United States of America formal refresher and post-graduate courses are allowed as deductible expenses.

Recommendation No. 2, we wish to elaborate. You can see we make a specific suggestion to encourage young men to take advantage of education and to make financial adjustments. We could elaborate this at great length, but we suggest to you, sir, that Canada has suffered in the past and is now suffering and continues to suffer a steady loss of highly-trained, educated, and skilled young men to the United States, not only in medicine, but chemistry, physics, in the trades, nurses, and so on. This is a steady flow of human capital from this country.

We would suggest, sir, that if the bright young men that left Canada since Confederation had stayed here that our development would be far ahead of what it is today. If their talent, their initiative, their skill, their energy, had been expended here in Canada surely we

would have benefited.

You might say in medical analogy that we suffer a chronic haemorrhage from the national bloodstream. We hope you, as a Royal Commission on Taxation, can bring forward something to encourage these young people to stay in this country. There are probably many suggestions other than the one we have put forward here.

We make tax concessions for new industry, new oil wells; can we not make some adjustment for new people? That is, for talented young people; encourage them to stay here.

For instance, we have gone to some trouble to learn the effects of medical manpower. I am sure similar data exists in all other professions. We have learned from the men associated with medical schools, Dr. Wendell McLeod, and the Dean of the Manitoba Medical School, that the flight of doctors from Canada averages a net loss of 200 a year to the United States. The gross loss is more than that, with some returns after post-graduate training.

We would suggest that if an averaging income over the first ten years after graduation were allowed that this would encourage young people to stay in this country or to return to this country and by that time they would have roots down and might stay as part of our national family.

To be specific, in the University of Manitoba, in the class of 1952, there were 86 graduates in this city in medicine. Today 62 of the 86 are practising in Canada, 21 are in the United States, and five are still doing post-graduate training. Those are men who went to

A10 general practice, saved some money and have now gone on to specialize. Some of the five will go to the States. One-quarter of our men are lost to the United States.

There are 12 medical schools in Canada, 900 graduates a year, and somewhere between 20 and 25 percent we lose each year. We are training doctors for America. We are replacing them with doctors from Europe. There is good reason to believe the inflow from Europe will diminish as prosperity increases.

In the United Kingdom the numbers in the medical school were reduced by erroneous prophecies of their needs. Now, they know this, and we have reason to believe the inflow from the United Kingdom of these will diminish.

COMMISSIONER GRANT: May I ask you a question: of the 900 graduates of the medical schools of Canada each year, have you any figures as to how many of these would be American citizens, United States citizens, who are enrolled in our medical schools and return to the United States?

DR. COOKE: In the year 1962/63 67 American students started the study of medicine in Canada. This has resulted in the whole four years at one time for 309 in 1959 down to 245 in 1962/63. The movement of physicians in to and out of Canada in the year 1961 from the United States came to 67, and from elsewhere came to 378, making a total of 445 moved in to Canada. To the United States went 296.

Now, that 296 includes Americans who trained here and some Canadians; the net loss to Canada was 229. We have quite a bit of information. The American Journal

A11 of Public Health reports from the United States Public Health Service by Peterson and Cornell indicate they can count on 200 Canadians a year going to their country.

COMMISSIONER GRANT: Canadians - do they mean Canadian citizens or doctors of Canadian birth?

DR. COOKE: Canadian graduates from our medical schools.

COMMISSIONER GRANT: That might include a lot of students or doctors from other parts of the world who have come to Canada to get a medical education but with the view of ultimately practising in the United States, could it not?

DR. COOKE: We have some data on foreign students today comprising 12% of our medical student body. This decrease in American/ and increase of Commonwealth students numbers has taken place in the last 10 years. It is interesting to note, and I don't know what the significance of it is, the proportion of women graduates in Canada has risen from 5 to 10 percent.

COMMISSIONER GRANT: The loss is very great and it's a problem. There is probably a similar loss in men in the other professions. Would the figures you have be restricted to those of Canadian birth?

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DR. COOKE: Dr. Wendell McLeod of the Canadian Association of Medical Schools has suggested that a registry, an on-going registry, of Canadian medical graduates be established for purposes such as you speak, sir. In fact, he has got a note in his letter. He asked permission for money for such a registry.

May I ask my colleagues if they wish to elaborate on the recommendations of the C.P. & S.?

DR. RABSON: I think it might be important to differentiate between refresher courses and medical conventions. At the present time, doctors are allowed to attend two conventions a year. This is part of education, we hope, but the actual course of going to a university centre, or a hospital centre, where a three or five-day, or ten-day, course is put on, is not deductible.

I think those two have to be kept separate in your mind.

THE CHAIRMAN: We will, I hope, come to all these points in our examination of your submission. Thank you, indeed, for what you have said. Is there anything further, or may I proceed down your submission?

DR. COOKE: We just wish to re-emphasize, sir, that our recommendations for consideration to the higher education do not apply only to medicine. We think that some accommodation to all advanced education should be considered.

THE CHAIRMAN: Thank you. The first matter you draw our attention to is refresher courses, and as we have already heard there is an analogy here to the expenditures on conventions.

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We have had representations with regard to refresher courses before and my understanding is that if it is paid by the employer, in the case of an employed doctor, it generally can be deducted; is that correct?

DR. COOKE: The employer charges it as a cost of operating his business.

THE CHAIRMAN: So you are making representations on behalf of both the professional man who is in practice and the professional man who is employed and wishes to make payment himself?

DR. COOKE: Yes, sir.

THE CHAIRMAN: You point out that in the College of General Practice, from whom we have already received a submission, it is compulsory to take refresher courses in order to maintain one's standing in the College. Now, is that practice spreading? Are there other organizations which are making it a requirement in order to continue membership?

DR. COOKE: I don't know of any others that are making it a requirement of membership. It is a custom in all specialties and the practice is increasing. The University of Manitoba, the University of Minnesota, are holding annual refresher courses now which they did not do years ago, but I cannot say that it is a requirement to maintain membership in the Royal College of Surgeons, for instance.

THE CHAIRMAN: I imagine what is going through all of our minds is what kind of limits should be imposed upon such a right. There are some people who would use it well, and there are others who may use it extravagantly.

B3 Certainly, if it were a requirement, that would be a good measure, I would think.

DR. RABSON: Mr. Chairman, the question of requirement is really, in my opinion, not so important. Good standards of medical practice require continuing education and a man who fails to partake of this falls behind in his scientific knowledge, because it is progressing so rapidly that it is absolutely imperative that anybody who is interested in maintaining good standards partake of these courses, whether he be a generalist or a specialist.

Certainly, a limit could be put on it, say, one or two a year, just as there are on conventions. This would be very acceptable.

DR. COOKE: You will, in due course, receive a brief from the Canadian Medical Association in which this is elaborated in detail, and we would associate ourselves with the definitions and limits as they lay them down.

They suggest that two refresher courses per year be the limit, and that the duration is laid down, so that your question will be answered in their submission which you will receive, this autumn, I believe.

COMMISSIONER WALLS: With regard to this matter of definition, I notice that you only want an exemption on what you call formal courses. Now, I wonder if you could enlarge on just how you would define a formal course and how it could be defined in an Act so as to be separate and distinct from courses that you do not feel should be exempt?

DR. COOKE: We have suggested, sir, that to be

B4 eligible for income tax deduction a refresher course must be administered by an organized body, such as a hospital, a university, or a pre-existing medical association, not the local club. Not, sir, a fly-by-night organization that just sets up for a trip to Timbuctoo. This is defined in the brief you will receive this Fall from the Canadian Medical Association; the formal courses established by an organized, pre-existing, scientific body.

We have suggested that such a course be not less than two days and not more than 30 days duration for the purpose of making a specific definition.

COMMISSIONER WALLS: You said that it would not cover, if I can remember the words, a fly-by-night organization who was holding a convention in Timbuctoo. Now, I am just wondering if there is not a danger there of combining these types of trips and a long trip abroad. Have you any limitation as to where these courses would be held?

DR. COOKE: No, we have not laid this down, except that your point is well taken. I mean this could be abused, of course. If it is under the aegis of a university, then, of course, it must be within the confines of that university sphere, the geographic sphere of the university. If it is under the aegis of a hospital, it would be in the hospital.

Where there might be a loophole is if an association established a cruise to the Mediterranean in mid-winter; this could be abused. We haven't specified any geographic limitations. So far, in the laws of Canada, there are no geographic limits for conventions, which have

B5 been held on ships in pleasant waters.

THE CHAIRMAN: I assume, Doctor, that we could, in all fairness, ask the Canadian Medical Association to provide us with a list of those refresher courses that they would consider should be eligible for such deduction?

DR. COOKE: Sir, we recognize this as a reasonable need.

COMMISSIONER GRANT: If I remember correctly, when representations were made to us earlier it was suggested that the refresher course would have to be broken down into so much for study, that is by presentation of papers, and so much for clinical work, so much time allotted to clinical work.

Would clinical work be applicable to all phases of the refresher course?

DR. COOKE: I think so. The actual curriculum and content of a refresher course is, of course, dictated by the organizing body not by the consumer, to so speak. It is usually laid down in advance by the University of Manitoba, Faculty of Medicine. They announce a refresher course in orthopaedics, or something, and have a program and have lectures and ward rounds and the content of the course is not the choice of the doctor that comes from the country to take it. He comes and takes a formal course that is laid down.

COMMISSIONER PERRY: I gather that in reviewing your own position you attach a great deal of significance to the formality of this procedure and the close relationship to your day's work. I am thinking of the thousands of men in any walk of life who must be continually refreshing

B6 their knowledge; who do this largely in their own time by thoughtful reading and discussion, who would not be capable of fulfilling their day's employment if they did not do this. Do you see any way of distinguishing this group which, of course, is almost the mass of the population, or the mass of the business population, from your own group? I can see that in a technical sense there is a difference. You do go somewhere and hole up for two or three days and take a formal course and pay for it. That is a clear and identifiable event, but a good many other people are having to do this for themselves all the time and I think, in fact, would welcome the opportunity of going to a course for two or three days.

DR. COOKE: Well, sir, the ill-defined continuous education that you speak of actually does go on in the whole profession of medicine every day. Doctors have a large number of scientific journals that they, we hope, read continuously, and they have regular hospital meetings in which cases are reviewed and clinical information is disseminated.

We do not suggest for a minute that any particular tax easement be made in this continuing process but we 2 would suggest, sir, that most professions today, aside from dentistry and law and medicine, most professionals are employed. Chemists, engineers, physicists, are employed by organizations today. These men are sent on refresher courses. The cost of these courses is borne by the employer and are tax deductible, but the self-employed doctor and the salaried doctor whose employer can't or won't send him away, suffers in comparison to these

B7 other professionals. We are suggesting, sir, that steps be taken to equate him with his professional brethren.

COMMISSIONER PERRY: Really, I was trying to push you out a little bit beyond the professional class.

DR. RABSON: What Dr. Cooke says is true, that right now there is a management course at the University of Western Ontario. Eaton's have sent half-a-dozen men. Labatt's have sent two or three. Every big firm sends its men. This is an operating expense for those companies. The automotive industry has people who are specialists, as you know, in specialist mechanics. They are sent down to the home factory to study the new engines and see how they operate all the works. This is an operating expense.

COMMISSIONER PERRY: I am aware of this sort of thing.

DR. RABSON: The point is in business, mostly in business, this is done through a firm. Even a self-employed man, a small organization, if it sends people on this kind of course, can deduct it.

COMMISSIONER PERRY: This is the answer that one would expect to be given, certainly. I was thinking of my own case where I spend a certain amount of money on books; a good deal of time studying outside my own office hours. My employer gives me no compensation for this but he might fire me if I did not do it, and I do not deduct it.

DR. RABSON: You should get another job, sir.

COMMISSIONER GRANT: There is an angle that strikes me in the comparison that you use, Dr. Cooke. I would like to have your views on this. You cite the case

of where the employed professional man is sent away for a refresher course and his expenses are paid by his employer and that is regarded as an expense as against the doctor who has to pay for his own.

Well, to carry that comparison through, might one not have to be satisfied that the employer was going to increase the salary of his employee doctor as a result of the doctor taking this medical refresher course? If the employer says, "You can go and take this course, and I will be glad to pay for it, but it doesn't mean you are going to get any increase in salary, then I can see where the employer would say, "This is a justifiable expense by improving this man's use to the company."

In the case of the individual he says to himself, "Unless I am going to be left at the post, unless my colleagues are going to pass me, and take my practice away, I have to keep abreast of the latest developments and if I do, I am going to improve my own position. I am going away; I am going to take this course because I have to do it in order to keep abreast but also I have to do it in order to maintain my financial position," and he goes away, takes that, improves himself, and improves his mind, but he also improves his financial position. He makes more money, whereas the employed doctor does not necessarily. That is a comparison that goes through my mind.

DR. COOKE: Well, sir, in the case where the employer does pay the expense of the salaried doctor, of course, we are quite happy. We don't have any complaints, but there are many instances with the

B9 non-profit employer foundations that exist today, and many doctors in government services where the employer does not pay any post-graduate course and the doctors are something like Alice in Wonderland. They have to run like mad to stay where they are with the continuing change, so that I appreciate that there is a legal case, Ridley versus somebody. Mr. Fisher said, "That knowledge gained by the first large capital asset is as much knowledge as when he takes his original medical course." We suggest that this is out of line with the other professions.

DR. RABSON: I think also, sir, the salaried man's position may be threatened. Although he may not get any financial improvement, his position or his job would become less secure unless he did keep up, so from that point of view there is a financial gain to him. His employer insists that he reach the standards which the present-day requires of him, and therefore, this refresher course is necessary.

In that way he does protect his present financial position and, if you use your own phrase, that by going to refresher courses the man improves his financial position, the Government gains by that and, therefore, the improvement that led to it should accrue to his advantage, if it only does improve his financial position.

COMMISSIONER GRANT: I think that is present in practically every method of earning a livelihood, where you improve your own position you are going to gain by it. The Government is going to gain by it as well. The fact is, the more money you make, the better off you are going to be financially.

DR. RABSON: Isn't it the analogy of an operating expense? Wouldn't you consider this an operating expense since it's a recurring event? You cannot take a refresher course now that will last for the rest of your existence. You have to take refresher courses often.

COMMISSIONER GRANT: Dr. Rabson, if I answer that in the affirmative, I am afraid I would be committing myself.

DR. RABSON: The other point, sir, that perhaps we haven't emphasized, in the case of the self-employed doctor who goes away for a 30-day refresher course, he obviously loses income during that time.

THE CHAIRMAN: You make the point that the taking of a refresher course is to maintain his position. If he did not take the course, he would drop behind. Thank you.

COMMISSIONER MILNE: I just had one question on the particular point of continuing education. Certainly, you made it very clear to us that this is an absolute necessity, these refresher courses for the doctors in their profession to keep abreast of what is new, and you outline the difficulties and the hardship where this expense is not permitted because of the self-employed doctor or where his employer cannot or will not remit it as an expense.

Do you know, or are there many cases where doctors absolutely cannot do this? Are there many doctors who find they may not have the benefit of this continuing education because of this expense?

DR. COOKE: I couldn't answer yes to that

question. I think it isn't black and white. It is grey. We have to encourage our men to take refresher courses and especially the country doctor who may be alone in a town. It is a problem for him to get locum and he says, "Well, I am going to lose income. They won't let me deduct it from my tax, anyway." He may tend to take the easy path out and just stay home. We would like to do everything we can to encourage him to continue his education, to maintain his standards of care of the citizens of his community.

It would not be correct for me to say that I know of any doctor who is completely unable to do so.

THE CHAIRMAN: Moving on to the next matter you put before us, this concerns the use of tax funds in medical care, which you put before the Health Commission. It seems to me I should go right through the two briefs item by item as I come to them, and I believe we should eliminate paragraphs 8 to 16 inclusive.

If you would like to argue that that is a tax matter, we would be very glad to hear a little argument - not very much - but I think this is basically for the Royal Commission on Health Services and not for us. We have enough to do with our own job without getting into theirs.

DR. RABSON: We are getting a little worried if they are going to report or not.

DR. COOKE: The only point of elaboration is that much has been said so far about the quality of medical care. These paragraphs relate to the quantity of medical care. If the Government were to tax everyone and use the tax fund to pay for all medical care, with

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no deterrent, no co-insurance factor, no brake on the individual consumption of medical care, we have learned from experience in this province, where they have such a plan, that the consumption of medical care by the citizens increases, that the quantity of medical services increases in a frightening manner, and therefore the tax load would increase.

We suggest that a much more efficient system is to limit the tax load of the expenditures on tax funds to the definite point of need, and we have gone to some pains to suggest methods of defining need. The Government, of course, defines need by its income tax laws today. We would suggest, sir, that the tax load on the citizens of Canada and the limitations of the tax load are discussed in those paragraphs you wish to eliminate.

THE CHAIRMAN: Thank you, sir. I enjoyed reading that very much. I am interested in this subject as I suppose every Canadian citizen is but this isn't our task at the present time.

The next item, I think, that falls to us is in paragraph 17, where you propose that the individuals deduct those disbursements which they make themselves. I would assume that if this was done it would probably greatly reduce the deductions from individual tax returns in respect of medical expenses. Certainly, if the 3% floor were employed, which you consider it should be, because there would then be deductions in respect of large expenditures by these persons who weren't insured and perhaps in respect of people with small incomes. That would certainly change the pattern of deductions very considerably.

COMMISSIONER PERRY: I was wondering why this change. It is stated in paragraph 18 that this change may encourage low-wage earners to participate in medical care plans. I am just wondering if this was going to be the case and if they were going to lower deductions from most people why it would have this effect at all.

DR. COOKE: Today, sir, Manitoba Medical Services premiums for a family are about $140 a year. If you are a low-income earner and your taxable income after deductions for wife and children is $2,000 or $3,000, the 3% still allows you to deduct part of your premium payment. It has been suggested with the Government conducting the hospitalization which accounts for about half the medical dollar, the 3% should be cut in half to 1.5 to maintain the status quo, and perhaps we should have suggested this, but even if it was left at the 3% there would still be some inducement or easement of the purchaser of medical insurance.

THE CHAIRMAN: My calculations indicate that the inducement would be very small, indeed; 3% of $3,000 = $90, $150 deductible at 11%, $5-and-a-half.

DR. COOKE: Yes, but quite a few Canadians have taxable income of less than $3,000; in Manitoba, anyway. I gather you are implying it might be wise to abolish the 3%.

THE CHAIRMAN: No, I was questioning you.

DR. COOKE: If you abolish the 3% we calculate that you are going to help the rich rather than the poor.

COMMISSIONER PERRY: There might be some cause for believing that the whole deduction should be withdrawn

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now that medical expenses are being put on an insurance basis. It wasn't designed to cover this kind of situation, as is quite apparent, the nature of the measure.

DR. RABSON: There is one other suggestion that may help in the overall picture: that is to make the insurance premium for low-income people completely deductible up to a certain amount. This would accomplish what we are trying to do; that is to encourage health insurance and at the same time give people the benefit of this type of coverage.

COMMISSIONER PERRY: The measure wasn't designed to encourage anything. It was to assist people encountering catastrophic illness.

COMMISSIONER WALLS: Sales tax: you propose sales tax on prescription drugs be abolished. You mentioned to us that at the manufacturing level it is pyramided. Pyramiding means more profits to the people handling the drugs at some level, and, accordingly, if the level were removed that profit would be removed. I am curious if you have any views as to what the effect of that would be on the druggist concerned.

DR. COOKE: No, I don't have anything to amplify that. I do want to make a correction in paragraph 22. It says 8% tax and it should be 11%.

DR. RABSON: I believe the pharmacists would like to see this removed. They feel that the outcry against the high cost of drugs could be reduced markedly by removal of this pyramiding.

THE CHAIRMAN: To the best of my recollection the pharmacists informed us this would represent a pretty

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substantial amount of money and they are prepared to accept it.

DR. RABSON: That is not the position of the pharmacists in Manitoba, sir.

THE CHAIRMAN: This was either Ontario or Canadian; Canadian, I think it was.

COMMISSIONER WALLS: Some of the drugs are at the present time exempt, such as insulin, cortisone and polio vaccines and a few others. If the hospitals didn't make a separate charge to their patients for drugs then the drugs dispensed by hospitals would be tax-free. I am sure I am sympathetic to the request because it has been brought out previously the heavy percentage of old-age pensioners' incomes that go to drugs. One of the difficulties is the definition of drugs, what you are going to exempt and what you are not going to exempt. In your suggestion you say the ones which are issued by prescription. Would this not lead to the same drugbeing taxed in one case and not being taxed in another, depending on whether a prescription was issued or not?

DR. COOKE: We concur on that point, sir.

COMMISSIONER WALLS: Would it not be better to use lists already put out by the Department of drugs and pharmaceuticals and non-pharmaceuticals and to define the drugs that should be exempt?

DR. COOKE: This was an alternative suggestion that if the federal tax were levied at the retail level it would lend itself to excluding specific lists of drugs.

COMMISSIONER WALLS: Irrespective of whether it was at the retail level, and I am not arguing for or

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against your suggestion of retail level, irrespective of which level it would be simpler if the exempted drugs were defined, would it not?

DR. COOKE: Yes. Another point referable to your statement is that it would be - when a certain drug is purchased by prescription as compared to when it is purchased over the counter today the prescription usually costs more because the druggist charges a dispensing fee for filling the prescription, numbering it, filing it and recording it and so on. May I ask you, sir, if you received the brief of the Canadian Pharmaceutical Association?

THE CHAIRMAN: We have one from the Pharmaceutical Association. To the best of my recollection it was the Canadian Pharmaceutical Association. It was heard in Toronto.

DR. COOKE: I have here a copy and in their brief, their very first recommendation is elimination of the federal sales tax of 11% because it is in Canada $11 million annually. This recommendation was also made to the Royal Commission on Health Services.

THE CHAIRMAN: I think we should now move on to the brief of the College of Physicians and Surgeons in which your point one is very much like the brief we have had on refresher and post-graduate courses. I think any questions I had noted here have already been taken care of. Is there anything further in this particular question?

Specialist training to keep Canadian graduates in Canada or bring them back to Canada. It is extremely interesting to me. I must admit a certain prejudice in

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this because there is one doctor in my family who is now in the States and I hope he will return to Canada. I am delighted to hear you come up with something that would help in that matter.

COMMISSIONER WALLS: How much time is there customarily between graduation as a medical practitioner and the starting of specialist training?

DR. COOKE: There is a great variation, sir. Today, it is quite common for a young graduate to proceed forthwith to specialist training. In the past, and a few today, the doctors go out to general practice, generally

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in the country and accumulate a nest-egg to enable them to carry on their post-graduate training.

COMMISSIONER WALLS: Where they go from one right to the other there wouldn't be much advantage in a 10-year averaging because there wouldn't be much income to average.

DR. COOKE: No, sir. I think you miss my point. We are talking about a 10-year averaging after the M.D. degree. If you graduate as an M.D. today and embark on a 5-year training program in surgery you get $100 or $200 a month as an intern and as a resident and then you go into practice, and you don't earn much the first year or two and you hope to earn more in the last three or four years in the 10-year stretch. If the income is averaged on the 10 years, income tax paid on the average, there would be an inducement: (a) for people to take advanced education and, (b) to return and stay in Canada or stay in Canada to obtain such easement. We are not asking for special consideration for people prior to the M.D. degree,

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although some of our members suggested we should.

We think that the same applies to a young engineer who goes over to take a Ph.D. in civil engineering and then comes back to practice as a professional in Canada. He should be encouraged to come to this country: (a) encouraged to get his Ph.D. and, (b) encouraged to come back to Canada.

THE CHAIRMAN: I see your point with regard to people in Canada, but a doctor who takes his surgery in the United States in five years after becoming an M.D., and then returns to Canada, it would be left outside of your recommendation because it is the average of the five years when he takes his training in surgery and the five years following and the first of these periods is in the United States. It might be difficult to frame a law to average the Canadian income and the U.S. income.

DR. COOKE: Well, I personally trained in New York, and I filed my income tax return although my income was so pitiful - I have a letter still from Ottawa telling me I needn't bother filing until I started practising, so an income form could be filed for purposes of record and maintained and used against the earned income in the first five years of practice.

This medical graduate training in New York would know if he came back to Canada he would get some, you might say a carrot, if he came back to Canada, whereas when we don't do this the boys that train in the States generally stay there unless there is some family reason to come back. We recognize, sir, it is impossible to stop the flow of human resources to the States, but we do

think that it should be recognized and some effort be made to encourage the return.

THE CHAIRMAN: This to me is a very interesting thought. We have been concerned about this; not just with regard to medicine, but with regard to all our educated people who are certainly emigrating at a very serious pace.

DR. COOKE: If you go to the United States Consul in Winnipeg today and ask for a visa you will get an appointment in mid-October because of the queue of young Canadians wanting to leave; the flow of human capital.

COMMISSIONER GRANT: This is undoubtedly due, of course, to several reasons, but one of the most dominant reasons would be that they are offered greater opportunity in the United States by way of reimbursement. I am wondering about the opportunity for doctors in Canada. Is there not a shortage of doctors in Canada generally?

DR. COOKE: Well, yes and no. We have a ratio of one doctor to 833 citizens, I think it is - 800 and something - 893. Actually, we have today a favourable ratio. This has been attained by the emigration from Europe to this country of hundreds and hundreds and hundreds of doctors since the war. There was a backlog in Europe after the war. When the British scheme came in it limited the number of opportunities in England and the surplus came to us. This surplus no longer exists in England. I believe today there is really no shortage of doctors in Canada compared to the rest of the world. There is anticipated a shortage by all people inside the profession.

C9

There is a professor in Ottawa bringing forth some valuable data. The Royal Commission on Health has data. The Canadian Medical College has data on this. These all prophesy a lowering of the ratio.

D/MR/dpw

COMMISSIONER GRANT: It seems to me that there has always been an exodus of Canadian citizens to the United States. There is a certain movement the other way, but it has always been greater from Canada to the United States. But in the medical profession I am under the impression that doctors do very well in this country financially and that there is not the same inducement for medical students to go to the United States in search of greater rewards as there is in some other professions.

DR. RABSON: I don't think that statement is factual, sir. I believe the income of doctors in the States is much greater than it is in Canada. I work with a group of 25 doctors. We are losing a paediatrician to the United States because of a fabulously tempting salary he has been offered in a small area in Iowa. It's a small area, but close to a medical school. The income of doctors in the States is far beyond that of the income of doctors in Canada.

COMMISSIONER GRANT: There would be bound to be incidents.

DR. RABSON: On the average income, I mean.

COMMISSIONER GRANT: The average?

DR. RABSON: The average is much higher.

COMMISSIONER GRANT: Is this in practice?

DR. RABSON: Yes.

COMMISSIONER GRANT: Doctors in practice?

DR. RABSON: Yes, doctors in practice.

COMMISSIONER GRANT: How would they be guaranteed? Would they be guaranteed a certain amount?

DR. RABSON: In a clinic or group they usually

D2 are.

DR. COOKE: You see, our point is we are not actually asking you to increase the doctor's income in Canada, much as we would like to. What we are asking you is to come up with some arrangements whereby the young doctor will be given immediate inducements, easement and encouragement to settle here. Having settled here, having grown roots here, having started a family here, and having achieved a reasonable income, having apprecia- tion of the natural beauties of our country, we hope he will stay.

THE CHAIRMAN: This, to me, Doctor, is quite an exciting suggestion. This is the first time we have really received any specific proposal to keep our graduates in Canada and also for bringing them back to Canada. We have had general recommendations which might keep them here. I have heard nothing yet in the way of a specific recommendation to bring them back.

DR. RABSON: As Dr. Cooke has said, we would gladly endorse that this be applied to all post-graduate courses.

THE CHAIRMAN: I think that completes our questioning, Doctors, and you have given us some very valuable thoughts, indeed. I can assure you we will consider them and they will have a complete examination before we report. Thank you very much, indeed.

DR. COOKE: Thank you, sir.

THE CHAIRMAN: We will stand over for three minutes.

D3

--- Short Recess

THE CHAIRMAN: Shall we proceed, Mr. Secretary?

THE SECRETARY: Mr. Chairman, the next submission this morning is being presented by Mr. Morris Neaman. Mr. Neaman is here before you to speak to his brief which I would like to enter into the record as Exhibit 182.

--- EXHIBIT NO. 182: Submission of Mr. Morris Neaman.

SUBMISSION OF MR. MORRIS NEAMAN

THE CHAIRMAN: Thank you, Mr. Secretary. Good morning, Mr. Neaman. Your submission was good reading, indeed. You have certainly given us a great deal to chew on and we will have a number of questions to put to you, I think.

Would you like to say anything to us before we proceed to go down this brief?

MR. NEAMAN: Mr. Chairman, before I start, I would like to make a couple of corrections in the brief. It's on page 11, paragraph 28, at the bottom of the paragraph; there is a mistake there that should be corrected.

> "...corporations earning $35,000 or less
> and 50% on taxable income in excess of
> $35,000."

THE CHAIRMAN: The correction is made in our copies, I think.

MR. NEAMAN: It has been made?

THE CHAIRMAN: Yes.

D4

MR. NEAMAN: Thank you very much. Then the other correction is also made.

THE CHAIRMAN: I don't know what that would be.

MR. NEAMAN: No useful purpose will be served in presenting the entire brief. Therefore, I just want to make a few remarks on what school of thought we have used in arriving at the brief. We regard income tax as for government expense only. That is the reason; running government is what we are taxing people for. Income tax is a cost, regardless of where the burden is shifted to.

We also adhere to the principle that income tax provisions, regulations, should be based on certainty, equality, simplicity. Those are the principles we have inserted in this brief. Those are the things that have prompted us to prepare the brief in the manner it has been prepared.

With that, I would like to ask the Commission if they have any questions.

THE CHAIRMAN: Before we start on this, you personally are a manufacturer?

MR. NEAMAN: Yes, sir.

THE CHAIRMAN: And you live here and you are a student of economics?

MR. NEAMAN: No academic standing. A private student to myself.

THE CHAIRMAN: I must say I am very much impressed with the breadth of your quotations and your obvious interest in the subject.

COMMISSIONER WALLS: There seems to be some doubt among my fellow Commissioners and myself with

D5 respect to your recommendation of 10% to be paid by the employer because in paragraph 14, page 5, you state:

> "Under our proposal each employer would contribute an amount equal to 10% of his payroll and every employee would receive his full wages without deduction regardless of his marital status and family obligations."

Now, we are given this morning an enlargement of your plan which says on $10,000 income that 10% is paid by deduction thus $1,000, and then the surtax you put on it of 20% above that, and then the take-home pay is $8,400. Now, that would show that the $1,000, which represents the 10% reduction, is coming off the employee. Now, who pays that 10%?

MR. NEAMAN: We have a problem. If we had no tax in existence now, I would simply advocate the 10% tax by employers, in addition to the rates that ~~are~~ in existence, but we have an Income Tax Act in existence and deductions are made and it is my thinking that salaries and wages have something to do with the take-home pay and tax taken into consideration as part of the arrangement of that pay.

Once this exists, we will have a transition period, but eventually the employer will make arrangements for certain pay with the thought in mind that an additional 10% is expected of him. Right now, when we are going to radically change our system, I am suggesting here that we must see that because of the change no employee will take home any less pay than he has taken today and the

D6

employer will have to subsidize the difference during the transition period.

COMMISSIONER WALLS: What I would interpret you are now stating is this - and I think you are quite correct - that if the employer pays this 10%, he will automatically, to begin with, adjust the salary scale of the man by 10% lower than it normally would be?

MR. NEAMAN: That is right, but never less than his take-home pay at present and not in excess of 10% of his pay.

THE CHAIRMAN: I think the answer is clear. By the way, Mr. Secretary, if those are extra copies of the Neaman plan it is very interesting. Let's distribute them to people who might be interested.

I think the way we must conduct this is to deal with it under the various parts. The first part concerns individuals. The second part concerns corporations.

MR. NEAMAN: That is right.

THE CHAIRMAN: I will propose that we direct our questions to any paragraph we choose in part one. One matter I am not very clear on; as to mechanics. Just how self-employed people would deal with this. You say self-employed individuals will remit quarterly an amount equal to 10% of net income. That sounds very much like the present system which is a quarterly remittance based on the estimate - one would have to estimate his income in the same way as is the present practice.

MR. NEAMAN: He would prepay 10%, the same as the employer of his own drawings or his own net income.

D7

THE CHAIRMAN: Thank you. Then people who receive more than $6,000 will compute and pay their own tax. There will be no withholding of those amounts?

MR. NEAMAN: That is right. There is something to be said about that suggestion because the people in the over-$6,000 class, we consider somewhat of the executive type or the more understanding people inregard to taxation.

2 They make their own taxes and they only pay 20% on the first $50,000 over $6,000 and no one puts a hand in their pay envelope and takes the money out, which is quite a psychological effect. Whether we like it or not, no one likes to have anybody tamper with their pay envelope.

THE CHAIRMAN: The fact would be that for those people who are employed, in the sense they could be classed, that the Government would then have the concern with the collection of their taxes rather than their employer, and there might be some loss. The losses do not worry you, I take it?

MR. NEAMAN: No, I am not worrying about the Government being unable to collect. They get you regardless.

There is one more thing that you must not overlook. When we are speaking of the ones over $6,000, we are speaking of 12% of the total wage-earners. We haven't got so much to look after and worry about collections. It's the 88% that we should worry about; that gives us problems.

Twelve percent earning over $6,000 per annum is relatively a small percentage of the wage-earners and

D8 the Government can cope with that amount.

THE CHAIRMAN: We would have less than six hundred thousand returns?

MR. NEAMAN: That is right.

THE CHAIRMAN: On your 12%.

MR. NEAMAN: That is right.

THE CHAIRMAN: It has been stated that it should be one of the duties of being a citizen to file a tax return. You would eliminate that?

MR. NEAMAN: In most cases, under the $6,000 earnings.

THE CHAIRMAN: For the 88% of the taxpayers.

MR. NEAMAN: They would be good citizens when the Government doesn't ask them for taxes.

COMMISSIONER MILNE: I have one question about Section 11 here, and I want to be certain in my mind the income area that you are exempting. Certainly, in the $6,000 area we can see the $6,000 is exempt. In the second one, $56,001 to $106,000, it says subject to a tax of 40% on the income in excess of $56,000. In that particular case, $56,000 is totally exempt?

MR. NEAMAN: Not exempt. $50,000 at 20% and $50,000 at 40%.

COMMISSIONER MILNE: That was what I wanted clarified.

MR. NEAMAN: We are not abandoning the principle of progressive taxation. We are simply extending the progression. We can't in 1963 just simply abandon the higher earning class and say to them, "You are free."

COMMISSIONER MILNE: And the same principle

would apply to the $106,000?

MR. NEAMAN: The same principle would apply to them.

COMMISSIONER MILNE: Thank you very much.

THE CHAIRMAN: We have computed the proportion of tax to income in various brackets as proposed by you here. We find that it is, as you say, progressive. It is at least as progressive as our present scale and it might be said to be more progressive because the proportion of taxes to income between $50,000 and $99,999 is, under your proposal, 46.3%, whereas it is now 34.5% and for people over $100,000 it is, under your proposal, 67.8 as against 41.9 according to the figures I have before me, which I assume are correct.

MR. NEAMAN: I cannot see how it can be correct because on the table that I have set up, between $7,500 and $60,000 earnings, there is quite a difference in take-home pay.

THE CHAIRMAN: I beg your pardon?

MR. NEAMAN: There is quite a difference in the net take-home pay under my plan as against the existing plan.

THE CHAIRMAN: The figures I was quoting, of course, include the 10%.

MR. NEAMAN: Even if it includes the 10%, we have a man earning $60,000 a year. Under my plan he will take home pay of $44,400. He has to be married in order to take home pay of $32,440. He has to have two dependants to take home pay of $32,789.90, so I cannot see where the percentage would be greater.

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I am not opposed to the amount of taxation. All I am concerned about is the method but it can't be more.

THE CHAIRMAN: For $60,000 your overall tax rate would be about 25% according to what you have just cited.

MR. NEAMAN: All right; so he could pay more in taxation as a married man because his take-home pay is so much less.

THE CHAIRMAN: Have you compared that with what his take-home pay is under our present schedule?

MR. NEAMAN: Yes, I have. Under your present schedule a married man, with no dependants, earning $60,000 a year, will have a net take-home pay of $32,440. Under my scheme he will take home $44,400. That is the idea of this scheme, that while it has a psychological effect, he will only contribute 20% of his own; it has a definite effect on his pay envelope.

He takes home, in progression, all the way up to $60,000 more money. A man earning $20,000 a year will take home pay, under my plan, of $15,600. Today a married man will take home $14,212.

THE CHAIRMAN: Under the figures you quote to us it is a very substantial reduction in progression.

COMMISSIONER PERRY: I think, Mr. Chairman, the problem is with the 10% which our own staff properly assumed is going to be paid by the employer as you stated in your original brief.

MR. NEAMAN: But as I have explained before, we have now an income tax system in existence and deductions

D11

are made and what we are dealing with at all times is take-home pay, regardless.

COMMISSIONER PERRY: I think these are now additional comments since your original brief has been submitted.

MR. NEAMAN: Thank you; we had to struggle with this explanation because of its complications. I took it for granted that the submission, being made to experts, they will be able to correct it.

THE CHAIRMAN: I am sorry, Mr. Neaman, I made a mistake. I included in the figure here the 10% as though it were a tax on the employee. You are treating it as though it were a tax on the employer.

MR. NEAMAN: That is right.

THE CHAIRMAN: Which accounts for that very substantial difference.

MR. NEAMAN: Eventually an arranged rate between the employer and the employee will be taken into account in the net take-home pay for the employee.

COMMISSIONER PERRY: I wondered what significance you attached to having so few brackets, and such wide brackets with such great changes from one rate to another.

MR. NEAMAN: One main reason is because the class between the $6,000 and $56,000 earner is a very impotant part of our modern society, as I have explained in the brief. That is the managerial people, the high artisans, the professional man, and I think that those people are entitled to be given some consideration in the progression.

D12

If we go to work and bite off their earnings, or their rewards by a harsh tax, it becomes very discouraging and there is no incentive. I think it also adds a great deal to simplicity. You don't have to go to college to learn how to deduct your tax or find out what you owe the Government.

COMMISSIONER PERRY: We had the simplest tax of all yesterday suggested by the Chamber of Commerce.

MR. NEAMAN: I appreciate that. I was on that Committee.

COMMISSIONER PERRY: You have to agree that this does make a very sharp change when you go to the next class.

MR. NEAMAN: Not to the earner. If a manager or any person in an executive position gets a $2,000 raise, he will gladly send the Government $400. Today, when a man gets a $2,000 raise, if it goes over a certain bracket, plus the various other deductions, he goes home quite dissatisfied. He says, "I would rather not have the raise. What do I get out of it?" It all depends on the way you look at this thing.

I am personally of the opinion, living with people long enough, tax is not a popular thing. Everybody wants to be exempt and there is no person living who wants to pay taxes.

COMMISSIONER PERRY: No doubt at all about that. We agree one hundred percent.

MR. NEAMAN: This is the reason why we have cut out all exemptions because we think equality is one of the greatest principles in taxation.

D13

THE CHAIRMAN: I think we understand part one. Moving on to corporations, paragraph 27, page 9, I was rather intrigued by paragraph D on page 10.

PB/dpw

Where you suggest corporations be obliged to declare and pay dividends annually in amounts not less than one twentieth of the distributed income of corporations, it is hardly a right of tax laws to cause people to pay dividends, but I suppose taxes may be levied on the assumption that a dividend has been paid, whether or not that has been the case?

MR. NEAMAN: There is nothing to assume. If a company doesn't want to pay out tax - it just issues a dividend, pays the tax, and gets money back on the loss, or sells preferred shares or some promissory notes; anything evidencing of the liability of the company.

THE CHAIRMAN: I am questioning whether the law should be written so as to cause them to do something within the corporation. This is a law to collect tax.

MR. NEAMAN: I took it for granted that the income tax laws overruled all other laws. That is the reason I put it in. I was cognizant of the fact this is not company law. I took it for granted that the income tax is overall powerful and could do almost anything.

THE CHAIRMAN: Now, the principle is far more important - it is an interesting principle and I think if a company were to go out of business and be left with substantial undistributed income the effect of this would be to cause the distribution of that income over a period of time. It would be longer than 20 years because 20 off each year - it would be something like 40 years.

MR. NEAMAN: There are many reasons for this suggestion. One particular one is to overcome the problem of distributing surplus profits. If a person wants to

E4 draw out half the total amount he can pay back some of it by way of tax. I think that is a very important point, and also I outlined various other points. The minority shareholder doesn't have to rely on the good heart or good thinking of the director in declaring dividends; if it is there, the company has to pay it.

One-twentieth is not a hardship on any company. If it is a privately-owned company they can always lend the money back to the company for capital. By the same token large companies can have preference shares or debentures or whatever kind of liability they want to assume. It relieves quite a problem.

We have, as the Commission probably knows, a lot of inactive corporations all hanging on with large undistributed profit accounts. That is those who haven't learned how to strip them and it doesn't do any good to the country as a whole.

Under this plan they could have a time and the opportunity to distribute the accumulated surplus profit account.

COMMISSIONER PERRY: Would you make any special provision for new corporations, new businesses starting out?

MR. NEAMAN: The reason I kept away from that is, when you open the door an inch it flies open a mile. When you start exempting a group of people in tax matters there is not one in this room that couldn't justify why he should not be treated in the same way. Give nobody anything and you have no kicks.

COMMISSIONER PERRY: You probably noticed your

E3 recommendation F has been implemented in the last budget.

MR. NEAMAN: Yes, some other things that are also, G - no, not G.

COMMISSIONER PERRY: There is some further restrictions in transfer of loss.

MR. NEAMAN: Yes. It is a matter which is done. I know mine better. I understand it better.

THE CHAIRMAN: Would we need distribution provisions, the right to capitalize undistributed income and pay 15% tax on it; would that be necessary under your plan?

MR. NEAMAN: I don't understand the question.

THE CHAIRMAN: Could we do away with the right to capitalize income for a 15% tax that is permitted under Section 105 of the Act?

MR. NEAMAN: It hasn't been taken advantage of.

THE CHAIRMAN: We wouldn't require it in your plan?

MR. NEAMAN: No, you would require nothing. I think if this plan is accepted in its entirety you wouldn't require many of the regulations in existence.

THE CHAIRMAN: We move on to capital gains.

MR. NEAMAN: You are satisfied with the suggestion of 40% on the first dollar of corporate income?

THE CHAIRMAN: Well, we understand it.

COMMISSIONER PERRY: We can't enter into a contract with you.

THE CHAIRMAN: We are going to page 19.

COMMISSIONER WALLS: On page 16 you deal with the taxation of Crown corporations.

E4

MR. NEAMAN: Right.

COMMISSIONER WALLS: Is it not the fact that most of the federal Crown corporations today are taxable?

MR. NEAMAN: Not to my knowledge.

COMMISSIONER WALLS: Yes. There is about 15 of the main ones that are taxable. The big problem lies in the Crown corporations owned by provinces and municipalities. Have you given any further thought as to how constitutionally we can collect from these other forms of government?

MR. NEAMAN: Well, I declared myself to begin with; I am not any academic student. You will use lawyers for the purpose to possibly amend the B.N.A. Act or make arrangements between the Provincial and Federal Governments because this is a very important point. To exempt corporations that are doing business in Canada, regardless of who owns them, from taxation, is the worse thing in all taxation laws and regulations. How to overcome the various legal problems, that is where you experts come in. I can only suggest it to you.

THE CHAIRMAN: Moving on to page 19, paragraph 50.

MR. NEAMAN: Right.

THE CHAIRMAN: Taxation on capital gains. When you speak of capital gains in this context it would be all those transactions in capital assets. It wouldn't follow the delineation as now established in our Canadian law. You depart from Canadian law entirely.

MR. NEAMAN: Positively. I have stated here in paragraph 52:

"It is essential that the new legislation

E5

contain a clear definition of capital gain."

Frankly, I am not able to do it on my own and it would require more thinking and I know the job isn't easy.

THE CHAIRMAN: You are in good company. I don't think anybody has achieved a complete definition of it. There have been certain classes of transactions which have been put into a class and everything that fits into that basket is a capital gain. I don't think there has really been any writing down of a suitable definition as to what it is.

MR. NEAMAN: This problem of this particular tax - I am quoting here Mr. Stikeman. He suggests what capital gain means today. He says:

> "Not make a capital gain on purpose; not do it often; do it alone; look like an investor and not like a predator; don't make it quickly; do as little as possible yourself."

That is an awful thing to have. It may sound funny, but it certainly has its implication on the law of the country. I really think we could find, if we really seek - we could find a detail that could pinpoint it.

THE CHAIRMAN: Would you consider a continuing transaction in properties by a man who deals in properties, and this is his business, to be capital gain within the meaning of your text?

MR. NEAMAN: I would agree if that was the rule, if that was the law, one for all. I am a believer that one law should govern all citizens. What is applicable

E6 to one should be applicable to any.

THE CHAIRMAN: Do you believe if those were considered capital gains it would be fair to tax that man on a flat rate of 25%?

MR. NEAMAN: I would rather they did it that way than the affairs that exist today. It is all relative. If we could find a way to satisfy that, if a man is in the real estate business, that is the nature of trade, and that is where he belongs, then we should say, if a man occupies himself with numerous, various, enterprises, he is not entitled to capital gain at all.

I would go along with anything that would be specifically pinpointed.

THE CHAIRMAN: That is where I am seeking assistance, sir. It is extremely difficult to draw a line between those people who deal in the normal course of their business in something that we come to look upon as capital assets and those people who, on the other hand, are really investors and they are not dealing with assets; they are investing their money in them, and when they take their money out it is to put it into something else as a rule. I am wondering whether the two types of people should be taxed at the same rates, and if not, how one differentiates.

MR. NEAMAN: I wouldn't like to commit myself at this point. It is too wide. If it should please the
2 Commission, during our discussion of this, I am prepared to go to work on this thing in my thinking and submit further thinking on that point.

THE CHAIRMAN: We would certainly like any help

E7 that you are able to afford us at this time. This is one of the most difficult things.

MR. NEAMAN: I believe it is possible trying to cover too much. You are not going to satisfy everybody and be perfect. You are going to make mistakes regardless. One man is going to pass his different type of operation handling something else and getting away without one cent of tax. This is going to happen as long as we have people, and there is nothing you can do about it. Begin to work and not have different laws because of a very few; that is wrong.

COMMISSIONER GRANT: I have to go back to page 18, paragraph 47. Do I interpret that correctly in saying that the Canadian corporations wouldn't include dividends received in calculating income but could include as a deduction for tax paid dividends paid by the paying corporation?

MR. NEAMAN: That is right; dividends received by the individual by the corporation is already tax-paid, deducted at source, once paid. The dividend received by a Canadian corporation from another who has already paid the ten percent can distribute that dividend free of tax.

COMMISSIONER GRANT: But the corporation paid the tax on the dividend.

MR. NEAMAN: On its own.

COMMISSIONER GRANT: So that you are promoting that that tax be deducted twice?

MR. NEAMAN: Only once. The Canadian corporation that declares a dividend to another Canadian corporation will deduct at source 10% and the receiving

corporation has a tax-free dividend that can be distributed. If it declares a dividend on its own it must pay the 10%.

THE CHAIRMAN: We come to paragraph 55, and in that paragraph you refer to death duties and estate taxes. Your proposal there is to permit the pre-payment of these during the lifetime of the testator.

MR. NEAMAN: That is right.

THE CHAIRMAN: Is this a novel idea or is this being done elsewhere?

MR. NEAMAN: Frankly, I don't know. It is my own thinking because of my own problem. I think it is a wonderful thing. I am a believer that nothing should distort the operation of business or nothing should be done under pressure, done suddenly. An individual that has prepared nothing for succession duties, the family finds itself in a chaotic condition. On the other hand, I have seen where wise men prepared to die handed over to their heirs their wealth and got kicked out of there by their heirs.

I have been on many disputes of this type. I frankly think that a man is best able to do these things when he is alive and it should be done for him when he is dead. We are suggesting payments, a pre-payment started by a man at 30, and if he does this for 30 years the Government would have received 40% because it will double itself with compound interest every 15 years.

THE CHAIRMAN: What advantage would that plan have over setting aside the necessary funds during one's lifetime or buying insurance?

E9

MR. NEAMAN: It still leaves money when he is dead, even though ---

COMMISSIONER WALLS: You would have to pay estate taxes on the accumulation and by Mr. Neaman's way you would avoid that?

MR. NEAMAN: The other way you have to do a lot of cutting corners, get your heirs to buy the insurance with their money so they are able to pay the tax and the money belongs to them. Under my system you don't have to take anybody into your confidence and work with anybody. You just do it yourself.

COMMISSIONER GRANT: Instead of you paying as you go, you are paying as you are going.

MR. NEAMAN: There is one thing you can't deny; all of us will have to go.

COMMISSIONER GRANT: You and I agree on that.

MR. NEAMAN: Absolutely. I agree with everything.

THE CHAIRMAN: Did you want to a a question?

COMMISSIONER GRANT: No.

COMMISSIONER BEAUVAIS: I have a question: suppose you pay $20,000 or $25,000 and then you lose your capital?

MR. NEAMAN: Pardon?

COMMISSIONER BEAUVAIS: Suppose that you pay in advance 10% and then the capital is lost before you die.

MR. NEAMAN: I make provision for that.

COMMISSIONER BEAUVAIS: There is one?

MR. NEAMAN: I make provision for that. Positively we don't want anybody's money if he hasn't got it.

E10

THE CHAIRMAN: It would be a reasonably easy matter to collect the pay-as-you-are-going tax but what would the other tax be if you didn't do it; there would have to be some relationship between the two, would there not?

MR. NEAMAN: Yes; I would encourage people to pre-pay tax.

THE CHAIRMAN: Give a discount?

MR. NEAMAN: That is right.

/dpw

They are encouraging people to pre-pay taxes.

THE CHAIRMAN: You would give them a discount?

MR. NEAMAN: Absolutely. I would give them a better deal.

THE CHAIRMAN: Because it would be hard to measure the amount of that net worth tax in relationship to estate duties because one would not know what the estate was going to be at that time.

MR. NEAMAN: My suggestion is that when a man voluntarily pre-pays, that the value of his estate is arrived at when he is alive and that he pays taxes on the - I make a provision here some place - pays taxes on the growth of his estate; with a 2-year back, 5-year ahead. I think I make that computation in the brief somewhere.

THE CHAIRMAN: You do; on page 22, I think it is.

MR. NEAMAN: We suggest that once a person has accumulated a net worth of $100,000 he be permitted to file a statement of personal assets and pay tax on the amount in excess of $100,000. One exemption that I make in my entire brief is for $100,000 for estate duty taxes. This would be at the fixed rate of 10% and once paid would relieve his estate from further estate duties. Annually thereafter he would file a statement of net worth and pay tax on the growth in value.

A married couple should be regarded as one tax-payer, as we are dealing with a family unit, and this is one thing I would urge the Commission to look into: that there should be a little difference between gifts and the married couples.

F2

COMMISSIONER PERRY: Would you have in mind, Mr. Neaman, that the tax administration would agree with this valuation at the outset and agree with each annual revaluation?

MR. NEAMAN: They are able to agree when the man is dead. Why wouldn't they agree when the man is alive?

COMMISSIONER PERRY: What you are suggesting is they re-value the estate every year?

MR. NEAMAN: They don't have to re-value once it is accepted. Once you have a beginning, your assets and liabilities, you go on with it as you progress.

COMMISSIONER PERRY: Doesn't that mean you have to look at it at the end of each year to see how much it has increased?

MR. NEAMAN: What for?

COMMISSIONER PERRY: In order to pay this 10% tax.

MR. NEAMAN: We are operating companies on a continuous basis, on a balance sheet basis; why not continue to operate on the same basis for succession duties?

COMMISSIONER PERRY: Yes, except, as you know, there can be wide differences of view on valuation between the taxpayer and the Department.

MR. NEAMAN: I am not suggesting when one voluntarily subscribes to the pre-payment of estate duties or succession duties that consideration be given at the time of death. We make arrangements when a man is living and he values his assets and we do the same in our company procedure.

F3 COMMISSIONER PERRY: I can see the merit of your plan. It may not come out just right to the exact dollar, though, at the time of death.

MR. NEAMAN: If there is anything perfect, I want to see it.

COMMISSIONER GRANT: Do I understand this to mean that each year you would file a return on your capital?

MR. NEAMAN: Same as you are doing in operating a business.

COMMISSIONER GRANT: You give your version of what that capital is worth and the Department assesses it. Once the assessment has taken place, that is final. You have a clearance on that capital. It only means that for future years your additional capital or any accretions to that capital is then reported?

MR. NEAMAN: That is right.

COMMISSIONER GRANT: So that you, the taxpayer, are prepared to say that if there is any deflation, so far as this is concerned, you waive any rights to that. If there is any inflation, so far as this capital is concerned, the Government waives any right to that?

MR. NEAMAN: I would agree with that. I make a provision in 59, on page 22, in the rare situation - it's very rare in the last number of years, outside of 1929 - that the tax-paid estate value diminished sharply just prior to death. That is the provision I must make; that it would be a refund of tax based on value at the date of death.

Now, what I have in mind here is a very rare

F4

situation where death occurred just prior to the fatal date in 1929, the succession duties were due after the Crash and there was hardly any estate left, not even to the value of the tax, so in that rare situation when something strikes, we have to give some consideration to value of the estate at the time of death.

THE CHAIRMAN: A man who disposes of his estate by giving it away, there would be no deduction for him, I presume?

MR. NEAMAN: No. Once he gave it away, there is no claim.

COMMISSIONER GRANT: Once he has paid his tax, he can do what he wants to do?

MR. NEAMAN: That is right. Whatever he likes. It is really an extension of the gift tax with power to add.

COMMISSIONER GRANT: You would tie the income tax in with this?

MR. NEAMAN: No, I wouldn't want to tie anything in with it.

COMMISSIONER GRANT: What about a person that has cleared himself on the estate tax end of it, and then turns around and makes a gift to a member of his family?

MR. NEAMAN: He can give it away. He doesn't have to pay taxes. He is free to do with it whatever he likes.

COMMISSIONER GRANT: This would involve an amendment to the Income Tax Act?

MR. NEAMAN: That is right.

THE CHAIRMAN: I have no further questions, Mr.

F5 Neaman. Have you got anything you would like to say to us?

MR. NEAMAN: I just want to say to you this: in this province particularly we are trying to expand our economy, expand production for the purpose of curing unemployment. Everybody talks about a climate for investment; environment for industrial development.

I believe that income tax is one of those climates, an environment that is essential and I would strongly urge you to see how simple and clear and certain you can make it.

THE CHAIRMAN: Thank you very much, indeed. We certainly recognize the desirability of your principles and it is very good for us to receive such a fresh plan as you put before us which has got, obviously, considerable virtue. Thank you very much, indeed.

MR. NEAMAN: Thank you.

--- Short Recess

THE CHAIRMAN: Mr. Secretary, we are ready.

THE SECRETARY: Mr. Chairman, the next submission is being presented by Mr. James Cowan. Mr. Cowan is here this morning to speak to his brief which I would like to enter into the record as Exhibit 183.

--- EXHIBIT NO. 183: Submission of Mr. James Cowan.

F6

SUBMISSION OF MR. JAMES COWAN

THE CHAIRMAN: Thank you. Good morning, Mr. Cowan.

MR. COWAN: Good morning, Mr. Chairman.

THE CHAIRMAN: We are delighted to have you here with us this morning. We have all read your brief and found it interesting. We have got questions to put to you. Before doing so, would you tell us a little bit about yourself and say anything to the brief you please.

What is your profession, and how do you come to be submitting a brief?

MR. COWAN: I am a lawyer, Mr. Chairman, and I am submitting a brief because I am interested in this question. I would like,Mr. Chairman, to point out three corrections I would like to make in the brief, please.

On page 5, under the heading "Issue of stock or stock options to employees," about the sixth line down, delete all the words in the sentence after "less 20%," so that the sentence stops with the words "less 20%."

THE CHAIRMAN: We will delete the words "of the value of the benefit received"?

MR. COWAN: Yes. On page 6 there is, under the heading "Tax-free allowance for married women," a correction. Delete the words, the rest of the sentence after the words "World War II," the first sentence. I have got rather a long substitute, so that these two sentences will read this way - I don't think you would want to copy them down:

"In order to encourage more married women
to work during World War II, a man

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87 retained his marital status for income tax purposes regardless of his wife's earned income. As of January 1st, 1947, this provision was dropped and, instead, a $250 tax-free allowance on the husband's tax return was instituted for married women whose income was less than a single person's exemption."

Then, the third correction is on page 8, near the bottom of the page, about the sixth line from the 2 bottom of the page, which refers to non-taxable receivable preferred shares. It should be "redeemable preferred shares."

THE CHAIRMAN: Is that all?

MR. COWAN: Yes, thank you.

THE CHAIRMAN: You practise in Winnipeg and your practice is concerned, as with most lawyers, to some extent, with taxation, I take it?

MR. COWAN: Yes.

THE CHAIRMAN: Do you wish to say anything by way of amplification or recapitulation of what you have submitted?

MR. COWAN: Yes, Mr. Chairman. In view of some remarks that have been made to the Commission, and in view of the fact that I have made no general remarks in my brief, other than I think taxation should be levied on a fair basis, I would like to point out that I do not advocate any basic change in our tax structure.

It has been brought about over a long term of years and we obtain substantial revenue from it in its

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F8 present state. If we turn it upside down, we would be turning a lot of our present systems and present receipts and expenditures, and so on, upside down also.

What I do advocate is that steps be taken to ensure that loopholes be plugged under our present corporation tax laws, and to ensure that all pay their proper and equitable share of taxes, and I am particularly concerned with the first one mentioned in my brief - the tax dividend credit, which permits a man whose only income - a married man with $2,100 exemption, whose only income is from stock dividend, to have an income of $11,530 a year and pay absolutely no income tax other than $90, as a result of security tax, as compared with the man who receives the same as a salary but who would pay $2,208 in income tax in Manitoba.

This is in 1962; in Canada some $480 million was paid in dividends to individuals by Canadian corporations, if this 20% dividend tax credit was abolished, it would certainly increase our revenues; perhaps by something between $60 and $80 million.

Furthermore, I refer in the brief to undistributed corporation profits which are not taxable, except in the hands of the corporation which have not been received by individuals and so have not been taxed in individual's hands, and in 19[illegible] the undistributed corporation profits in Canada totalled $979 million.

If these corporation profits were distributed, certainly additional tax revenue would result. I have advocated one percentage in my brief. Since then, I have noted in West Germany there is a basic tax on

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undistributed profits of 51% to ensure that in pretty nearly every case profits would be distributed because of the high penalty.

I submit that the present tax, personal income tax structure is basically fair, with rates varying from 11% in the lowest taxable income, to 80% on the highest income. High tax rates do not stop most high income people from working like beavers.

We have had industrial activity in Canada; many new companies formed, many new businesses started, many new buildings constructed in spite of our high rate of taxation, and it would seem that, on the whole, people with higher income can afford to pay the higher rates and it doesn't interfere with our industrial activity in this country, and it is fair.

If changes in our taxation laws can be made to increase employment, such changes should be made. In spite of our prosperity, hundreds of thousands have been unemployed the year round during the last three years. Winter employment incentives do not help these people. Perhaps in place of these winter employment incentives we should have other incentives aimed at providing some employment each year for everyone.

I am opposed to an increase in the sales tax because it bears most heavily on small incomes who must spend every cent they earn to live. They pay a much higher portion of their income on sales tax than does a wealthy man who, perhaps, saves half his income and invests it.

If we are to have a capital gains tax, I suggest

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that we look at the one that has been instituted in England, where, in the case of land, anyone disposing of it within three years of acquisition will be subject to tax. This does not apply to one's home. For stocks, shares, securities, and some other property, disposition must be made within six months and if we have a regular capital gains tax, we perhaps destroy some incentive. Perhaps we also open up a lot of loopholes. I think they found many loopholes in the capital gains tax in the United States.

I remember reading of one case where a man sold property to his wife at a loss and they claimed it as a loss and sought income tax deduction. I would like to see, too, some changes made which would perhaps ensure that our larger corporations are controlled more widely.

For instance, Alberta Gas Trunk Lines has assets of about $160 million and those assets were obtained by selling bonds and selling preferred stock, by selling non-voting common stock and that company is controlled by people who invest in its voting stock from between $4,000 and $5,000. The people that have the voting stock put quite a small investment in that stock and they control that very large corporation.

THE CHAIRMAN: Thank you, Mr. Cowan. Taking your recommendations as they appear, the first one that you put to us relates to the 20% dividend credit, of which you recommend the abolition. One reason for that is because you suggest there really is no double taxation of corporate income, and you quote several authorities for your statement, and you say that if corporation tax

F11 is not borne by the shareholder, dividend credit is, in fact, the remission of taxes to the shareholder, but I suggest to you that perhaps the introduction of that provision in the Act was to serve the purpose of encouraging Canadians to invest in Canadian securities.

We believe that it would be a desirable thing. Many people have spoken to that and most of us are inclined to accept the fact it may assist towards that purpose. Do you think it does assist that?

MR. COWAN: It does assist that purpose, Mr. Chairman, but it also discourages Canadians from investing in mortgages on homes because of the tax advantage you get if you invest your money in stock. It also discourages Canadians from investing in government bonds and your bonds are now issued at a higher rate of interest than formerly because people wanted to - wealthy people would like to invest their money in stocks where they get this tax dividend allowance and this rebate which is very substantial, and while it may encourage people to invest in stocks, it does not help, I submit, the economy as a whole.

We should think of home owners and home buildings; the construction of homes, as well as the sale of government bonds.

It would certainly be lower if there was this tax advantage to investors to invest in stocks; it would shift the price of stocks up and it applies to both preferred stocks and common stocks, some of which may be very secure.

COMMISSIONER GRANT: Mr. Cowan, what I think

F12 one must take into consideration in comparison with your return on common or preferred stocks, and the return on an investment in bonds or mortgages is the rate of interest that the investment is yielding. You agree with that?

MR. COWAN: Yes.

COMMISSIONER GRANT: Common stocks are on quite a low-yield basis at the present time. I should think somewhere on an average of 4%, and on so-called gilt-edge stocks you might find that the yield would be something less than 4%. You only have to invest in a government bond at 6% in order to get a higher return after payment of income tax than you would on your common shares, after taking advantage of your 20% tax credit.

Mortgages are traditionally higher than government bonds, or municipal bonds, or provincial bonds, where the returns to the investors might be 7% or higher, so that looking at these investments in a relative manner, the tax credit only serves to improve, to some extent, the investment in the common stock, but it doesn't even, at that, bring it up, usually, to the return that would come from the higher income yielding bond or mortgage.

3 MR. COWAN: Yes, the lower yield on common stock is a result of this 20% tax dividend credit. That is why you buy them, because of the tax dividend credit, and then the interest rate on bonds and mortgages; bonds are, in many cases, government bonds on which we have to pay tax on the interest.

/dpw

In addition, of course, you have the interest in common stocks on account of tax-free capital, so perhaps two reasons exist.

COMMISSIONER GRANT: Perhaps you are right. It doesn't appear to me to be that way. I think that the yield is low on stocks because their future has been considerably discounted in the market and they are selling at high rates of price times earnings because of what this stock may eventually sell at.

MR. COWAN: Yes, it might make quite a substantial capital gain which wouldn't be taxable.

COMMISSIONER PERRY: I think, Mr. Cowan, your analysis would have some validity if we didn't have a central bank because the level of interest rates in this country is largely set by the Bank of Canada rather than by the purchases of the individual investors.

MR. COWAN: I think, to a fair extent, it is dictated by demands for money. If there is a big demand for money the interest rates go up.

COMMISSIONER PERRY: They go up if the Bank of Canada wishes them to go up.

MR.COWAN: If there is lots of money available, lots of investors trying to put money out, the interest rates go down.

COMMISSIONER PERRY: I would be more convinced that monetary policy is a factor here rather than any part of the tax situation. There is one point of fact in this first part that I wanted to clarify: it is the middle of page 2 - you compare the 18% corporation tax in 1946 with the 51% tax at the present time. I think your 18%

G2 leaves out the minimum part of the excess profits tax which was payable at that time.

I forget what point it stood in 1946 but it was very likely an additional tax of at least 12%, perhaps 22%, giving us a total of either 30 or 40 percent. I do realize that the corporation tax didn't change during the war from the 18% but there was a minimum tax payable under the E.P.T., as you may recall, which really would raise this up, I would think, to 40% rather than eighteen.

MR. COWAN: Yes, that should be - the excess profits tax should have been taken into consideration.

COMMISSIONER PERRY: There hasn't been as drastic a change during that period as you suggest.

THE CHAIRMAN: Turning to page 3, you suggest that in the U.K., this principle that one pays higher tax on unearned income; by that I take it you would mean in Canada a higher tax on unearned income. I am curious as to the reason. To me, unearned income is merely a saving of what one earned before.

MR. COWAN: Mr. Chairman, I am not dealing with higher tax on unearned income. All I am saying is do away with this benefit that goes to people who get a particular amount of unearned income; 20% tax dividend credit. I point out how, in England, they charge a much higher tax on unearned income and here in Canada, for those who have stocks, they get quite a tax benefit on their unearned income.

I point out in the previous paragraph, in the United States they don't have 20% dividend tax allowance like we do in Canada, but they do have a small one.

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THE CHAIRMAN: They have a small one?

COMMISSIONER PERRY: I believe they are in the process of withdrawing even the small one at the present time.

MR. COWAN: I believe they are.

COMMISSIONER PERRY: Just as a point of definition: where you use the expression "stock dividend," is this intended to mean dividend on stock or stock dividend?

MR. COWAN: I mean dividend on stock.

COMMISSIONER PERRY: I see. It makes quite a difference as to how it was interpreted.

THE CHAIRMAN: Up to the end of page 4, top of page 5, relative to stock rights; are there any questions on that?

COMMISSIONER WALLS: On page 5 in its entirety?

THE CHAIRMAN: Stock rights; the first paragraph.

COMMISSIONER PERRY: I would like to have Mr. Cowan explain why he thinks of stock rights as income.

MR. COWAN: Because you own, let us say, stock in the Bell Telephone, and 12 shares gives you the right to buy one share at $39 when the market value is $48. You certainly receive an income of $9.

COMMISSIONER PERRY: You are begging the question. You are telling me you have received income of $9. I wonder why you said income.

MR. COWAN: Because it is by virtue of your ownership of that stock and it is not a capital gain. You simply take advantage of the offer and you get that additional income and you should pay tax on it.

COMMISSIONER PERRY: That isn't really what

G4 happens. A company agrees it will take less into its capital account through this transaction; in other words, it agrees to sell its shares at less than what it might get. In the long run it means the shareholder is going to have less earnings than he might have.

MR. COWAN: It might and it might not, I submit. From the company's point of view that is true. From the shareholder's point of view that is additional money he gets by virtue of earning those shares; additional income.

COMMISSIONER PERRY: You wouldn't agree it is a gift?

MR. COWAN: No. I think it should be taxed as income.

THE CHAIRMAN: Would the $9 be deducted from the company's income as the cost of acquiring money?

MR. COWAN: No, it is not part of the cost of the company.

COMMISSIONER BEAUVAIS: It surely is not a dividend. You mentioned a tax-free dividend.

MR. COWAN: That is what it is.

COMMISSIONER BEAUVAIS: It is not a dividend.

MR. COWAN: Yes.

COMMISSIONER PERRY: I see why you think it is income; because it can be sold for money. That normally is not the test of income. It is more normally the test of property than of income.

THE CHAIRMAN: Up to a point I think I am with the witness. It is a benefit which he receives from the company of $9, and the question is, of course, whether that benefit should or should not be taxed as income.

G5 They are not normally so, but the Income Tax Act includes the taxation of certain benefits and brings them in as income. That doesn't extend to all benefits, I don't think.

COMMISSIONER PERRY: I would suggest it is an illusory benefit.

MR. COWAN: I think it is a very real one. You own stock in the company.

COMMISSIONER GRANT: I think you would agree, Mr. Cowan, that the method of raising equity capital by the issue of rights to shareholders is a comparatively recent innovation and probably has received its greatest impetus since the war. When rights were first issued I suggest that the corporation tried to price the shares to their shareholders at a figure which would be related to the drop in price which the shares then outstanding would take on the market as a result of this increase in capital.

It is difficult, I think, for any corporation to determine just what the reception is going to be to a rights issue and therefore there has to be some margin. You can't always judge it correctly, so that when they decide they will price their shares at, say, $36, whereas the shares are selling at $50 on the market, they are giving the shareholder the right to buy one new share for every ten held by him. That places the value on those rights at less than $2. I haven't got my pencil, but something like that.

This has been regarded as a benefit to the shareholders, but at the same time a shareholder is sharing

G6 his equity with a lot more people until such time as the capital is put to work and builds up again.

MR. COWAN: Yes, I understand that, but the extent that he benefited would be the difference between the market price and what he bought it at.

COMMISSIONER GRANT: Yes, he does benefit, but he might, in turn - depending on the price that the shares were issued, he might, in turn, not benefit. He might stand to lose if the shares on the market sold for less.

MR. COWAN: He wouldn't take up the rights.

COMMISSIONER GRANT: They would become valueless, but they might be taken up.

MR. COWAN: If he could buy on the market he would buy on the market.

COMMISSIONER GRANT: They are of no value but the shareholder might subscribe or might decide he would rather buy shares.

THE CHAIRMAN: I think the witness has a point. There is a question as to whether or not it should be a benefit which is taxable. It is something we may have to consider.

Issue of stock or stock options to employees: does anybody wish to ask questions concerning that?

COMMISSIONER GRANT: My only observation there would be: is your objection to that, the 20 point tax reduction?

MR. COWAN: Yes. If they paid equal income tax on the benefit they received, fine.

COMMISSIONER GRANT: It is true that it is income, but it is income which is subject to a 20 point tax reduction.

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MR. COWAN: Yes, you can have 20% tax credit. I might say, in 1962, Bell Telephone issued 226,825 under the employees' stock plan and the employees could buy shares at $36, which, on the basis of one share for each $150, a fraction of the annual pay. The stock sells today at $53. This is pretty good income you get if you are an employee of Bell and picking up the stock option and selling it on the market.

THE CHAIRMAN: Very true, Mr. Cowan, but at the same time it is a method of raising equity capital by giving present shareholders an opportunity to subscribe. It is less costly than putting the whole issue in the hands of an underwriter. That has to be taken into consideration.

MR. COWAN: Employee gets that additional money on which he doesn't pay taxes.

THE CHAIRMAN: A good many people will say a shareholder is entitled to some consideration.

MR. COWAN: He should have to pa taxes.

THE CHAIRMAN: You are arguing that they should pay tax; is that the point?

MR. COWAN: They should pay taxes on it.

THE CHAIRMAN: All benefits to employees should be taxable.

COMMISSIONER WALLS: I can understand why this is in your brief because there is quite a feeling today that entertaining, business entertaining, has gone to some excess, particularly in the United States, but some businesses require entertaining, and if you have that type of entertaining it is just the same as advertising expense, and why should

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an employee pay personal expenses for something for the business that he wouldn't accept as an individual?

MR. COWAN: Because the employee has the benefit of belonging to that club and, in addition, perhaps, his family belong to the club.

COMMISSIONER WALLS: As an individual he may not want to belong to it.

MR. COWAN: Well, I would think he has got this and that he should pay part of the cost as part of his income; not perhaps all the cost. In 1952 there was a case: the Royal Trust Company paid out $9,500 in membership and entrance fees. They were allowed it entirely as a deduction from their income tax and the employees had the benefit of belonging to those clubs.

COMMISSIONER WALLS: Might that not have been a very good and inexpensive method of advertising for the Royal Trust?

MR. COWAN: Yes, but at the same time ---

COMMISSIONER WALLS: Why should it not be deductible just the same as other advertising?

MR. COWAN: It is from the company, but at the same time the employee enjoys that benefit.

COMMISSIONER WALLS: You are going to tax it through the employee; you are suggesting that the employee pay the tax for it, so it is going to be taxed?

MR. COWAN: Part of it. If the average person belongs to a club he pays the whole thing and doesn't consider he doesn't get any benefit with regard to taxation.

I heard of one case of an accountant in Toronto

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that was promised, in lieu of taxable income, a host of non-taxable fringe benefits: free car; free membership in a golf club; free use of a ski lodge. Vacations; some in Europe - partly or wholly in Europe. Down-payment on a house; interest-free loans, plus money at bargain rates of interest. He received a lot of benefits which should be taxable and some valuation should be made on these benefits for tax. They are supposed to be taxed, but they are generally not declared.

THE CHAIRMAN: I think you are assuming incorrectly that they wouldn't, in fact, be taxed. I think the assessors are doing their best to pick up these items. I am not suggesting that they miss any. They are picking them up.

MR. COWAN: I think the assessor might pick them up, but the employers don't declare them as part of the income of the employee and that would enable them to be picked up usually by the assessors.

COMMISSIONER PERRY: Your comments seem to be directed more to reporting than taxation, because you end up with the statement that these benefits are all taxable.

MR. COWAN: Yes, but they are not reported so they don't pay tax on them. I think that is the point.

THE CHAIRMAN: You may be right; I don't know.

COMMISSIONER PERRY: I think it is probably right that most automobile benefits are being taxed. That is probably one of the easiest ones to get at.

THE CHAIRMAN: There is the free allowance for married women?

COMMISSIONER MILNE: I was interested in your

G1Q comment that you objected to this free allowance for married women discriminating, to a certain degree, against married women earning more than eleven hundred and having to file as a single person on her tax return.

More than that, I was interested in your sentence:

"With so much unemployment we should not be giving such an incentive for married women to work."

I think possibly it might be a little unreasonable to think $250 would be an incentive.

MR. COWAN: It was originally given during the war years as an incentive to encourage married women to work and it would likely encourage them to some extent. I know one married woman, whose husband was working regularly in a local department store, who had income for the year of $248. She just worked so much which was tax-free and she wouldn't work more than that. When we have so much unemployment I don't think that we should have any encouragement at all for married women to work in this particular way.

COMMISSIONER MILNE: You feel that the $250 simply should not be there at all?

MR. COWAN: Yes.

COMMISSIONER MILNE: You are not suggesting that a married woman who earns $1,100 should receive the $250?

MR. COWAN: No.

COMMISSIONER PERRY: You'd better go home under an armed guard, Mr. Cowan.

/dpw

THE CHAIRMAN: The next point, Mr. Cowan; you suggest that benefits from unemployment insurance should be taxed. Is there any discussion as to that?

COMMISSIONER WALLS: I just wondered how far you would go in that because you state that:

"...many who collect unemployment
insurance are not in the lowest income
group, and over the year naturally
have a taxable income,"

but does that not apply to things like Workmen's Compensation and certain other government pensions?

MR. COWAN: Yes, but by far the greatest sum is paid out under unemployment insurance. My position is this: that if a man makes $3,000 a year by working, he pays regular taxes, makes $2,500 by working and $500 from unemployment insurance and he pays taxes on $2,500. He is better off.

COMMISSIONER WALLS: Wouldn't you have to extend that same philosophy to other benef..s that do exactly the same thing? That is what I am getting at.

MR. COWAN: It may be that it should be, but I did not consider that.

COMMISSIONER PERRY: You would have a request, then, that the payments into unemployment insurance be deductible from income?

MR. COWAN: Well the employee only pays 40% of the cost of the unemployment insurance, so it would not be very far to deduct. One other thing is that ---

COMMISSIONER PERRY: No, he only pays part of his pension plan, too, and this is deductible.

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MR. COWAN: Yes. One other thing is a person pays old-age security taxes of 3%, and that is not deductible in computing your income.

COMMISSIONER PERRY: Perhaps this situation is not as clear and precise as it should be, but this quite often is the arrangement that where the ultimate benefit is taxable, or non-taxable, the contribution for that is dealt with correspondingly, and it would be extremely expensive if the contributions to the unemployment insurance fund were allowed as a deduction to employees.

MR. COWAN: I am not suggesting that because it covers - their contribution only covers 40% of the cost. We have similar ones like old-age security where it isn't deducted at all.

THE CHAIRMAN: Rates of capital cost allowance: I note that you feel that those permitted with regard to buildings are excessive and should be reduced and I would assume that the recapture provision would take care of the degree to which the rates are too high; would that not be so?

MR. COWAN: Not necessarily, because if one holds a building until they die, then it is not recaptured at all and the beneficiary takes the buildings at the value as at date of death and depreciates them all over again so it is not recaptured at all in some cases, and because of the large tax that would be paid in the event of recapture of large capital cost allowance, people are encouraged to hold on to their buildings or to buy additional buildings of the same type and accumulate more property and they don't - they are encouraged to accumulate property

H3 because of the large tax involved in the event of a large recapture of capital cost allowance.

THE CHAIRMAN: It has been submitted to us the recaptured depreciation on long-term assets, like buildings, may be unfair in that it may include gains which are really inflationary profits and that some correction should be made to the recapture provisions, regarding buildings, to eliminate that type of profit. Would you subscribe to that?

MR. COWAN: No.

COMMISSIONER GRANT: Mr. Cowan, what about the case where a will instructs the executors to sell the building: you are subject to income tax depending on the way the building is devised under the will to a beneficiary, are you not?

MR. COWAN: Yes. Well, I don't think it is recaptured when the executors sell.

COMMISSIONER GRANT: I can't give testimony on that but the executor is bound to file an income tax return up to the date of death, and then on behalf of the estate thereafter. I should think, though , the same provisions would apply to an estate which would apply to an individual in the event of a sale.

MR. COWAN: I don't think so, sir.

THE CHAIRMAN: Moving on to the next heading, which is on page 8: non-taxable distribution of corporate earnings. When you say "non-taxable" you are having regard to those which are taxed against the company rather than the shareholders?

MR. COWAN: Yes.

H4

THE CHAIRMAN: There is tax paid?

MR. COWAN: Yes.

THE CHAIRMAN: It is either 15 or 20 percent, I believe, although it has been pointed out that there may be escapes from that tax. You would actually eliminate those sections of the Act and pay these distribution taxes in full?

MR. COWAN: Well, I thought what they had in West Germany is not such a bad idea. They have a basic tax of 51% on undistributed earnings, and in that way the company makes sure that it certainly distributes most of its earnings.

THE CHAIRMAN: And that tax is applied at the time of the earnings?

MR. COWAN: Yes.

THE CHAIRMAN: After the collection of that tax the Government has no further interest in the distribution of the earnings?

MR. COWAN: I am not sure, but I imagine so. I don't know.

THE CHAIRMAN: The next item is on page 10: Returns on disbursements of dividends, interest and wages, and you make what appears to be a not unreasonable suggestion; namely, that everything in excess of $10 be reported, rather than what is now the case; namely, $100 up.

MR. COWAN: Yes, but in respect to bond interest it is $3. Anything in excess of $3 is reported in respect to bond interest.

THE CHAIRMAN: Well, I don't know at this time what the objection would be to such a change. I suppose

H9 the only one there could be is the difficulty of making returns but it may not involve very much; I wouldn't know.

MR. COWAN: I point out that in the United States reports are required on annual investment income of $10 or more, and in the United Kingdom they deduct a standard tax at source from dividends, so naturally the people will report their dividends, especially if they are entitled to a refund.

THE CHAIRMAN: Moving on to "Earnings of dependants": we have your recommendation. Are there any questions? We have no questions on that.

"Averaging farmers' incomes."

COMMISSIONER WALLS: I would just like to say something there. Personally, of course, I am in absolute sympathy with this paragraph, but on the other hand the average farmer that has to take off-farm employment does not do it for one year. Statistics show that there are large sections of farmers in Canada who of necessity have to take off-farm employment every year, and, therefore, if you have to do it consistently, there is not much point in the five-year average.

Of course, the intent of the five-year average was to make up for the hazards of nature that affect farming as a full-time occupation. Then, if you put this in effect, how are you going to draw the line between extending it from that farmer to the hobby farmer?

MR. COWAN: I think, maybe, if it was allowed for those whose principal occupation was farming, it would not be extended to the hobby farmer.

I was referring to a man that got nothing from

H6 his farm one year, because he couldn't get grain in in the Spring because of floods, and he just got nothing and so he took a truck and he went out and made money trucking in the winter, and he couldn't average his income because his chief source of income in that year was from trucking. He had nothing from his farming.

COMMISSIONER WALLS: In one province 39% of all the farmers take off-farm employment and are required to do that consistently. You see what I am getting at? It is quite possible that the income that he gets from his off-farm employment may be more than he gets from his farming occupation.

MR. COWAN: Yes. That is quite true, but if his main occupation is farming, I think he should be allowed to average it. Take, perhaps, the occupation that generally takes up most of his time.

COMMISSIONER WALLS: From the time element, yes, that might be possible.

THE CHAIRMAN: The next item here: "Penalties for failure to declare income." Rather than limiting opening of returns to four years, I believe you would remove that limitation?

MR. COWAN: Yes.

THE CHAIRMAN: Would you be a little harsh on the person who has made an innocent mistake because the law now permits the opening for all time if a mistake is not innocent?

MR. COWAN: Yes. If one makes an innocent mistake - here is an example: I had a small estate and the man had not declared, or he just declared a small portion

H7 of his invested income for about 14 years. When he died his widow was very embarrassed to find this out and we figured out - they asked us from the Income Tax Office

2 the income he had received from interest for the previous years.

We gave it to them and they made an assessment that went back up to four years. Some time had elapsed, so it actually only covered three years and income tax was paid for just the three years. Whereas, if the regular taxpayer would have paid his proper income tax on that income all during the years his estate would not have benefited and they should not have benefited, but they did benefit by virtue of the man not declaring his income.

THE CHAIRMAN: Wouldn't that omission be fraudulent?

MR. COWAN: I would think so, but the Income Tax Office did not suggest that, or did not suggest that there should be paid more tax than on the three years.

THE CHAIRMAN: Well, under the illustration that you give, your quarrel is not with the law but the application of the law?

MR. COWAN: Yes. The laws says fraud or misrepresentation. Now, it does not say fraudulent misrepresentation. It could be innocent misrepresentation, but the Income Tax Office seems to think it should be fraudulent misrepresentation, although in this case I mentioned it was really fraudulent.

THE CHAIRMAN: In all events, I suggest the law would suitably take care of what you are complaining about.

MR. COWAN: In practice ---

THE CHAIRMAN: In practice it may not be.

MR. COWAN: There is no penalty at all and this man did not pay income tax on his income for a number of years.

THE CHAIRMAN: But I would not like to see the law changed, as you suggest, to take care of perfectly innocent mistakes back 10 years. It seems to me that would be very unfair.

MR. COWAN: They should at least pay a regular tax, I would think, back to 10 years, and interest. Maybe not a penalty, but pay a regular tax, because the chap that made the direct return, he paid a regular tax. Taxes should be as fair as possible.

THE CHAIRMAN: Thank you. I understand the point. Estate taxes: you would like the Federal Government to be the sole collector of estate taxes, as I believe it was recommended by the Rowell Sirois Commission. Are you making this recommendation anywhere else than here?

MR. COWAN: No. I understand that it might be outside your terms of reference.

THE CHAIRMAN: We certainly are in no position to make recommendations to other than the Federal Government. I think we understand what you put before us, Mr. Cowan. We are very grateful to you. You have covered a lot of material, indeed, and certainly some of the points will be very useful to our deliberations.

Is there anything else you would like to say?

MR. COWAN: No, sir. Thank you very much, indeed.

H9

THE SECRETARY: The next brief, Mr. Chairman, is from the Hotel Association of Canada. Mr. Bert Fraser, who is sitting in the centre, Secretary of the Association, will speak to the brief, and on his left is Mr. Robinson, auditor for the Association, and on his right, Mr. R.A. Gallagher, legal counsel.

I would like to enter this brief into the record as Exhibit 184.

--- EXHIBIT NO. 184: Submission of The Hotel Association of Canada.

SUBMISSION OF THE HOTEL ASSOCIATION

OF CANADA

Appearances: Mr. Bert Fraser
Mr. H. Robinson
Mr. R.A. Gallagher

THE CHAIRMAN: Thank you, Mr. Secretary. Good morning, Mr. Fraser, gentlemen. You are the Hotel Association of Canada. We have had representations on this particular subject from various local associations. I think we understand the general principle.

We have found difficulty in being able to establish from our witnesses reasonable lines of demarcation as between commercial activities and non-commercial activities. Before we get into your submission would you like to say anything to us about what you have put here?

MR. FRASER: Yes, Mr. Chairman. One brief omission in the submission; on page 4, the fourth or fifth sentence: "All charitable..." - do you follow me? About mid-page. "All charitable, educational, scientific,

H10 religious and similar groups including charitable foundations are required..." - insert there "to file a new form No. 990-A." Insert "information which will require for the first time..."

/dpw

Now, Mr. Chairman, I know that you have had from local associations in three provinces submissions made on this general theme. We, in the Hotel Association of Canada, which is an association of all the provinces with the exception of Newfoundland, and membership in each provincial Association, have become increasingly aware of this competition that we are facing. The Income Tax Act, I don't believe, has, as yet, the teeth in it that it might have in administering to these types of tax-exempt organizations and associations which do, in fact, embark on a business venture.

[illegible] have, in outlining our brief, summarized the prin[illegible] in which, throughout the submission, we had extended or gone into more detail under these various sections. Examples of this type of competition that we think is unfair are certainly well-known and easily determined.

We have pointed out some of the aspects as well in the brief. I would leave it at this po[illegible], Mr. Chairman, for you to put questions to us. I have with me, as you know, my legal counsel for the Association and auditing couns[illegible].

THE CHAIRMAN: Thank you, Mr. Fraser. Would there be any estimates as to how much business we are, in fact, talking about? I can well recognize that the problem exists; I have seen it in several places. I wouldn't have the vaguest notion whether it represents a substantial financial factor to you.

MR. FRASER: Mr. Chairman, it is unfortunate that without some sort of report, annual submission, or

I2

some evidence that is compiled centrally we are not able to gather this sort of material. For instance, to indicate one simple aspect: the question of weddings and receptions which are not held in hotels, and we know are held in other places, many of which are tax-exempt under the Income Tax Act.

During a period, locally, here, from June 1st until August 17th, the society page of one of our daily papers where receptions were held in hotels some 71 weddings and receptions were listed and receptions held in tax-exempt organization halls were 78, and in restaurants some 13, and in commercial catering halls, 14, and one brewery hall.

I think that is indicative that hotels are facing a problem here from the so-called tax-exempt organizations.

This 78 includes churches, fraternal clubs, veterans' clubs, sporting clubs, such as curling and golf clubs, community halls, military messes, canteens, and professional clubs.

THE CHAIRMAN: Professional clubs are what?

MR. FRASER: Local professional business women's clubs.

COMMISSIONER PERRY: How long a period did you say that covered?

MR. FRASER: That covers from June 1st until August 17th.

COMMISSIONER PERRY: Two-and-a-half months.

MR. FRASER: Yes. If we include last Saturday's, it jumps to 88 in the tax-exempt as against 75 hotels.

13 There is another aspect and I must speak provincially because we are more aware of the situation here in the matter of beer consumption. Manitoba has an average consumption of 16.6 gallons for persons 21 years and over in the province. The beer consumption per member in licensed clubs in 1959/60 just prior to when thss study was done gives an indication of the drinking habits at the clubs in certain areas of Manitoba. As a member of these clubs is allowed to bring his wife or a guest to the club the average per-member consumption figure of 33.2 gallons has been used; that is the wife and guest would double the provincial average.

Beer sales for some eight clubs out of 35 investigated showed that the two-person average ranged as high as 91.9 gallons.

THE CHAIRMAN: Two-person average?

MR. FRASER: Yes, or three times, 2.8 times the Manitoba average. Excuse me, beer sales, however, in 10 clubs, veterans' clubs, ranged up as high as 130.8 gallons per member or 3.9 times the Manitoba two-person average.

THE CHAIRMAN: I don't know what the two-person average is.

MR. FRASER: That is a man-and-his-wife average in Manitoba of 16.6 gallons at that time of all persons over 21 years of age, and that club members are allowed to take their wives or guests to the club and we have used a two-person average.

COMMISSIONER WALLS: How does this figure compare with home consumption of beer?

MR. FRASER: That is taking the overall

I4 consumption of all beer sold in the province which is 16.6 gallons.

COMMISSIONER WALLS: You have no means of separating what is bought and consumed at home? I have a reason for asking this.

MR. FRASER: No. I could get those figures between home consumption and on-premise consumption.

THE CHAIRMAN: You have given us the on-premise consumption for clubs.

MR. FRASER: Yes.

THE CHAIRMAN: How about pubs and taverns?

MR. FRASER: This is the overall in the province. I am comparing these clubs.

COMMISSIONER WALLS: The overall average?

MR. FRASER: Yes, which includes everything.

COMMISSIONER GRANT: Your purpose in bringing out these figures, Mr. Fraser, is to tell the Commission that there is a great deal of beer being bought on premises by people who are there not as members but as guests?

MR. FRASER: Yes.

COMMISSIONER GRANT: Were you talking about wedding receptions? Do you relate this consumption of beer directly to wedding receptions?

MR. FRASER: No, not at all. It is the food catering end of it I am talking about in wedding receptions.

THE CHAIRMAN: I would be very interested in what kind of clubs the 10 are. I see this is more than 10 gallons per member per month or something around

I5 $2\frac{1}{2}$ gallons a week.

MR. FRASER: That is 10 veterans' clubs within suburban Winnipeg.

THE CHAIRMAN: These are veterans' clubs?

MR. FRASER: Yes.

MR. ROBINSON: The inference there is not that it is being drunk by members, it is being drunk by other than members and therefore the club is carrying on a business.

THE CHAIRMAN: The 130 gallons per member is not actually 130 gallons per member; you have taken the total gallonage and divided it by the members. You are demonstrating to us there are other people than members consuming the beer?

MR. ROBINSON: That the actual club is carrying on business and as such should file an income tax return.

COMMISSIONER PERRY: You disappointed me. I thought we had some interesting figures here.

COMMISSIONER GRANT: Is all this consumption on the premises? Is it consumed by people going in for the evening along with a member and sitting at a table and sipping the beer - could they distinguish between what proportion to allocate to members and what proportion to the guests?

MR. ROBINSON: We suggest that the doors of many of these clubs are open to other than members; registered members and their guests.

COMMISSIONER GRANT: That doesn't affect - the persons that come in off the street to buy a bottle of beer doesn't affect the hotel business as such, does it? It may affect them if they have a tavern in the hotel, but

does it affect the hotel business?

MR. ROBINSON: It would if they were only entitled to sell beer to their members.

COMMISSIONER WALLS: I think we all pretty well are in accord with the spirit of your representation and we know ourselves you are being unjustly treated. It seems to me the hard thing here is to define something that will be fair. For instance, what do you think if a man's club - I am not thinking necessarily of a veterans' club, but it is the same category. Is it not really an extension of his home, and if he decides he wants to entertain a number of his friends, instead of at his home, at his club, I don't mean only liquid refreshment, but even food, then do you consider that is depriving the hotels of business when normally it would have been done at his home?

Another thing: there are many places where this is done by church groups in rural parts of the province where there is no other facilities. Once again, surely this is not robbing hotel people.

Then, I think you must agree that churchwomen's groups from the time that Canada was started and churches were started have always done a certain amount of catering in order to make money for the good purposes that they have, and how are you going to define which of them shall be taxable and which shall not be taxable?

I can understand if they are advertising its availability to non-members, so perhaps you could do it on the basis of advertising, but I don't think most of these functions resort to advertising.

The big problem we are up against, as the

17 Chairman said when we began, is how you draw the line of demarcation to protect and yet not to encroach on systems
2 that people have become accustomed to.

MR. ROBINSON: If I may I will have a whack at that. We are not trying, in my opinion, to curtail unfair competition, but rather we would like to see these organizations file under the Income Tax Act; that we would have them file with the Government, the same as any other taxpayer, financial statements. If they are building up substantial surpluses then there is no doubt that they are making a substantial profit and they are, in fact, in business, and should pay tax the same as any other taxpayer.

COMMISSIONER WALLS: I am afraid that I inferred from the previous briefs we have had that your main purpose was that you were being charged a tax that other forms of competition weren't being charged.

MR. ROBINSON: No, I think that is wrong. What we want is organizations, and I am not going to name them specifically, we want the organizations to fall within the Income Tax Act. That is all.

COMMISSIONER WALLS: One other question, because this came up in our discussion at Calgary or Regina with the hotel operators - that was the use of a municipal tax to cover the situation that you have. I see you made a presentation to your provincial Royal Commission. Your brief doesn't state what your representations were in that regard. Could you enlighten us as to what tax? Was this a business tax you were suggesting they should pay?

MR. ROBINSON: Primarily realty and business tax.

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MR. GALLAGHER: Primarily realty and business tax, which in many instances these organizations are being exempted from also. In some instances that we are aware of the tax is actually levied and a request for a grant made and the grants have a remarkable resemblance to the tax which had initially been levied; in fact, wipe out the tax and allow the organization to carry on business without paying any tax at all, either on the municipal or on the federal level.

COMMISSIONER WALLS: How did you treat the tax on the municipal level, because, once again, these church groups who have taken on a considerable amount of catering, and not necessarily for their own members, would be non-taxable, and it is not customary for municipalities - and I doubt if there is a law that gives any municipality the right to place a business tax or other tax on church property.

MR. GALLAGHER: We didn't concern ourselves, sir, with church groups. We were concerned with other organizations calling themselves charitable, philanthropic and so on, which were, in fact, conducting business which had gone outside the field which they had chosen as being their object when they first started the organization up. Those were the people we were after.

COMMISSIONER WALLS: The reason I mentioned church groups - you mentioned them in your brief and also point to the fact that the United States are requiring religious organizations to file returns now.

COMMISSIONER GRANT: At the previous hearing this was put forward and I wondered if you might subscribe

19 to it: one, that you have no quarrel whatsoever with the club member who visits his club and partakes of its facilities and invites his friends there as his guests?

MR. ROBINSON: No quarrel.

COMMISSIONER GRANT: Number two: that you still have no quarrel, although you frown on the practice of using such club facilities for business entertainment on a fairly large scale, but you still have no quarrel with that. In other words, if I am a member of a recognized club in the City of Winnipeg and I have a group of people that I want to entertain at a cocktail party and the club has facilities to take care of that number I am at liberty, if the club will accommodate me, to go there. No quarrel with that.

Where you have the quarrel and whereyou do take exception to the present state of affairs is where they hold themselves out by advertising that they have facilities open to all and sundry who have the money to pay for them to come in and to partake of these facilities and that they use that money for their own benefit without payment of tax.

MR. ROBINSON: They are then carrying on business and should fall within the Income Tax Act.

COMMISSIONER GRANT: Would you agree with those three categories?

MR. ROBINSON: Yes.

THE CHAIRMAN: I understand your request is for an amendment to the Income Tax Act to bring into taxes those restaurants or taverns, no matter what the ownership may be, if they are, in fact, commercial. The test of

I10 commercial - you would, I think, be satisfied if that test was something like what it is in the United States.

J/MR/dpw MR. ROBINSON: That is right. If they file, Mr. Chairman. They will tell them whether or not they are taxable, if they cannot determine it themselves.

THE CHAIRMAN: I am not happy with those words of yours whatsoever. To have the Department decide these matters, the Department has got to have something on which they can make a decision. There must be some laid-down test. Now, what are the laid-down tests? That is the difficulty.

The laid-down tests are, to my way of thinking, set out in the U.S. Internal Code. If you are satisfied that those are tests, the rest can follow, but the difficulty in this matter is to establish what those tests are to be.

MR. GALLAGHER: We have no quarrel with the tests that are set out in the Internal Revenue regulations. They seem to cover the field quite amply.

As you are aware, Mr. Chairman, solicitation by advertising or other ways is prima facie evidence only of carrying on business, which is fair to both sides.

THE CHAIRMAN: I would have thought so. Thank you very much. We have got the provisions of the U.S. Internal Revenue Code here. It seems to me they are satisfactory for that purpose, but, anyhow, they can be looked at, if we decide to recommend along the lines that you are putting forward.

COMMISSIONER MILNE: I want to ask you a question, Mr. Fraser, about the specific instance of wherea

J2

convention is held in this city, that you would know of, next month, where, certainly, all the facilities of the hotels are being taxed, possibly, to the limit, and a social function where 1,200 will be attending is to be held on government property, and I would assume there would be some profit.

MR. FRASER: This does not only go on here; it goes on in other provinces, as you well know, where they have developed these centres, and even in university sites where they are actually catering to the convention groups.

If the facilities are present within the hotel industry, I think they should be used, but open solicitation of these groups and their business rubs a little bit when you see it going on and in an increasing proportion.

COMMISSIONER MILNE: It wasn't so much in regard to this particular instance, but we do know this does go on on government property. We can look around and see it. I wondered if you had any recommendation in that respect.

MR. FRASER: No, I am afraid not.

MR. GALLAGHER: We have one simple recommendation: that would be, let's make sure the Government can't do it.

THE CHAIRMAN: Thank you, gentlemen, very much, indeed. Mr. Fraser, have you got anything further you wish to say to us?

MR. FRASER: No, that is all, Mr. Chairman.

THE CHAIRMAN: We are very pleased to receive this. It is helpful to us. We will certainly continue to examine this problem and your words will be very helpful in that connection. Thank you, indeed.

J3

MR. FRASER: Thank you.

THE CHAIRMAN: Mr. Secretary?

THE SECRETARY: Mr. Chairman, I just have three briefs to enter here quickly into the record. One is from Mr. A.T. Burstow of Winnipeg, Manitoba; Exhibit 185.

--- EXHIBIT NO. 185: Submission of Mr. A.T. Burstow.

THE SECRETARY: One from Canadian Federation of Government Employee Organizations, Vital, Manitoba; Exhibit 186.

--- EXHIBIT NO. 186: Submission of Canadian Federation of Government Employee Organizations.

THE SECRETARY: And the brief sent in from Mr. Daniel McDonald of Vancouver, which has just reached us, as Exhibit 187.

--- EXHIBIT NO. 187: Submission of Mr. Daniel McDonald.

THE SECRETARY: That is all for this morning, Mr. Chairman.

THE CHAIRMAN: Thank you. We will stand over until 9.30 tomorrow morning.

--- Adjournment

ROYAL COMMISSION

ON

TAXATION

HEARINGS

HELD AT

WINNIPEG
MAN.

VOLUME No.:

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ROYAL COMMISSION ON TAXATION

Hearing held in Room 200,
Legislative Building,
Winnipeg, Manitoba, on the
28th day of August, 1963.

COMMISSION:

MR. KENNETH LeM. CARTER -- Chairman

MR. J. HARVEY PERRY

MR. A. EMILE BEAUVAIS

MR. DONALD G. GRANT

MRS.S.M. MILNE

MR. CHARLES E.S. WALLS

LEGAL ADVISER:

MR. J.L. STEWART, Q.C.

RESEARCH DIRECTOR:

PROF. D.G. HARTLE

SECRETARY:

MR. G.L. BENNETT

ANGUS, STONEHOUSE & CO. LTD.
TORONTO, ONTARIO

ROYAL COMMISSION ON TAXATION

HEARINGS HELD AT THE CITY OF WINNIPEG, MANITOBA

August 28, 1963

TOPICAL INDEX VOLUME No. 46

Winnipeg, Manitoba.

The United Grain Growers' Limited

August 28, 1963

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ANGUS, STONEHOUSE & CO. LTD
TORONTO, ONTARIO

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Volume No. 46

INDEX OF EXHIBITS

A2 --- On commencing at 9.30 a.m.

THE CHAIRMAN: Mr. Secretary, I think we might commence. The participants are likewise ready.

THE SECRETARY: Good morning, Mr. Chairman, Commissioners. The first brief this morning is being presented by the United Grain Growers Limited. We have with us this morning Mr. H.L. Griffin, who is an economist in the United Grain Growers Limited and also Mr. Louis Driscoll, General Manager.

Mr. Griffin will speak to the brief which I now enter into the record as Exhibit 188.

--- EXHIBIT NO. 188: Submission of United Grain Growers Limited.

SUBMISSION OF UNITED GRAIN GROWERS LIMITED

Appearances: Mr. H.L. Griffin
Mr. Louis Driscoll

THE CHAIRMAN: Thank you, Mr. Secretary. Good morning, Mr. Griffin and Mr. Driscoll. We have received your submission, examined it with considerable interest. We sometimes in these matters ask our legal adviser and counsel to attend and ask some of the questions. We never completely give up the right to ask questions ourselves.

When submissions contain considerable technical substance, we like to be assisted by a competent examiner, and this morning we have asked Mr. Stewart to be so kind as to lead the questions. As I say, we reserve some for ourselves.

This morning we have only two submissions, I believe, but they are both very long and we think that

A3 it would assist us a great deal if Mr. Stewart led the questions. We hope you don't mind us doing that.

MR. GRIFFIN: I hope I shall be equal to them.

THE CHAIRMAN: I am sure you will be. Before we come to your submission, is there anything you would like to say to us?

MR. GRIFFIN: Yes, Mr. Chairman and Members of the Commission. The instructions given to participants suggested that presentations should be prefaced by a summary. Ours does not contain a separate summary but in paragraph 4 on page 1 there is summarized very briefly the essence of our submission in these words:

> "...subject to some possible limitation, cash dividends on share capital should be deductible in calculating taxable income, as is the case with interest paid under a legal obligation on borrowed money."

Those words "possible limitation" were intended to recognize the fact if your Commission should accept the major recommendation you would doubtless find some reasons of your own based on considerations that we may not have dealt with for arriving at a limitation and, consequently, in drafting this submission we left the reference to limitations until the latter part of the brief, where they are found in Section 37, on page 13.

However, it seems to me desirable to point out that in the argument we present there are some inherent limitations and that our argument would not go beyond a deductibility of dividends on capital stock past a certain

A4 point. For example, we present the idea of deductibility as tending to promote the continued ownership of Canadian industries by Canadians and on that account it will be evident that we cannot be understood as going beyond recommending deductibility of dividends paid to residents of Canada.

Then, one of the arguments we present is based on the analogy, as I have just read, of interest paid on borrowed money. The present tax law, by allowing as deductible interest paid on borrowed money, providing it is under a legal obligation and the money is borrowed for the purpose of earning income, such interest is deductible and, thereby, the law recognizes that such borrowed capital has a cost and that a corporation cannot be understood to be making a profit unless it is earning enough to cover that cost.

Similarly, we present the idea that money raised by the issue of shares has a cost; a cost which must be recovered by the corporation before it can be said to be earning a profit.

Now, since we make that analogy, it will be evident that our argument would not carry us beyond a point where you could be said to be recovering the prime cost of that capital and we suggest that a reasonable measure of that cost would be the minimum expectations that would have been held out by the corporation or that would have been entertained by the original shareholder when money was paid into the hands of a corporation in exchange for its shares.

Consequently, it is suggested in our paragraph 37

A5 that a reasonable overall limitation of such deductibility might be, say, on a moderate rate of 6% on money heretofore or hereafter obtained by a corporation in exchange for its shares.

In presenting the argument on that basis, it is evident that we exclude from consideration capitalization of retained earnings, and also shares issued for consideration other than cash.

Now, it may be that an argument could be presented in favour of greater deductibility than that for which we have asked. In all events, our own argument is limited to that extent.

That covers that point, Mr. Chairman, and if I might add briefly a question of emphasis. I might point out that by way of showing that this is not a revolutionary idea at all, we list a number of precedents which might be said to apply either to practice or to theory. The most important one that we list, at least the first one we list, is the one I have already referred to; that of the deductibility of interest paid on borrowed money, which needs no further elaboration.

The second precedent, the only other one I would elect to stress here this morning, is the example set by the tax laws of the United Kingdom, where, for many years, dividends paid by a corporation were recognized as being the income of the recipient shareholder but were excluded from the income of the paying company.

Your Commission, of course, either is now or will become thoroughly familiar with the tax laws of the United Kingdom, and we would not want to be understood as

A6

endeavouring to expound to the Commission what those laws are, but that being our understanding of what they are, we wanted to rely on them as far as we could as providing a precedent.

Then I should like to point out that our submission might be said to fall into two parts. In one we give testimony. We provide information for the benefit of the Commission as to the effect of one aspect of the tax laws on one corporation; evidence that we think may be valuable to the Commission as it pursues its investigation. The remaining part of this submission, of course, is not in the nature of evidence, and we are in a position of asking the Commission to undertake an inquiry into certain fields, or to draw inferences from observed facts, but we do suggest that the recommendation we make is of very considerable importance in relation to that aspect of the Commission's work which deals with the request or instruction contained in the remit to consider how best the tax laws could be formulated, to encourage - I have forgotten the words - the continued ownership of Canadian industries by Canadians.

We ask you to draw a conclusion that the present tax law which denies deductibility of dividend on capital stock may have some considerable bearing on that problem, one which has given a great deal of concern to many people in Canada including members of the former Government of this country and members of the present Government.

In support of that suggestion we have used two examples of two major Canadian corporations which have recently passed out of Canadian control and under the

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control of interests outside of the country.

Naturally, the information we have available on a subject like that is only what may be gathered from published reports, and we have no access to the records of the company concerned nor any information as to the motivation that may have resulted in the transfer of that ownership, but we think it is worth enquiring into by the Commission because those two transactions, amounting in all to $200 million, and the loss to Canadian ownership of two extremely important and efficient, valuable companies, took place after the appointment of the Commission; after you were asked to enquire into this particular field and practically under your observation.

In conclusion, sir, I might point out that we were brought to make this particular recommendation from the experience of our own company on account of difficulties and problems that our own company encountered. We realize further that your Commission, before it could bring itself to make a corresponding recommendation, would have to find broader grounds for supporting it. You would have to be convinced that it would be to the general interest of Canada and tend to strengthen the whole Canadian economy.

It has been our hope, sir, that the presentation we make may tend to indicate that such is the case. Thank you.

THE CHAIRMAN: Thank you, indeed, Mr. Griffin. This is, as you say, not a brand-new idea, but as far as I can recall - and I am sure I am correct - this is the first time it has been put to this Commission by anybody

A8 appearing before us, and I am just delighted you have done this because it gives us some opportunity to examine it, to discuss it, and to try to detect what merit there may be in such a proposal.

There are one or two things that concern me in it, which we will come to later on, but I think we can now start by asking Mr. Stewart to proceed with any questions. Mr. Stewart?

MR. STEWART: Thank you, Mr. Chairman. Mr. Griffin, you were identified by the Secretary as the economist of the United Grain Growers. May I ask whether you are engaged full-time with that organization?

MR. GRIFFIN: Yes. Probably I should have made that clear. Although my title is economist, that is what you might call an internal title. I have been for many 2 years a full-time employee of the company and in using that title I am not claiming a professional status that would disguise the fact that I speak as a member of the organization.

MR. STEWART: May I ask how long you have been connected with the United Grain Growers Limited?

MR. GRIFFIN: Longer, sir, than I like to recall. If you put it over 30 years, perhaps it will suffice.

MR. STEWART: Now, Mr. Griffin, this brief which we are looking at this morning relates simply to the one point you have already mentioned to the Commission: that is the question whether dividends, cash dividends on shares of corporations should be deductible in the computation of taxable income.

My questions this morning to you will relate

A9 simply to that point, but I think I should perhaps say, for the purpose of the record, that in correspondence between the Commission and your company, it has been, I think, agreed that if the Commission required information or help from your company on other points, we will be able to obtain that at a later stage.

MR. GRIFFIN: We shall be delighted to give any information at all, sir.

MR. STEWART: Thank you very much. Now, so that I can be sure we are on common ground, on the effect of a particular comment of this proposal of yours that cash dividends be made deductible, I have prepared a memorandum which perhaps you would be kind enough to look at. It deals, as you will see, with a purely hypothetical company which I will call Company X, and there are three possible situations.

The first deals with that company under the present rules.

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Mr. Griffin, you will observe that in paragraph 1 that I deal with a hypothetical situation as the law now stands and that for this Company X, this hypothetical company, we assume a certain taxable income; tax on that income at an effective rate of 50% and a balance available for dividends of a particular amount. We assume a 50% dividend pay-out and we, therefore, end up with retained earnings of a particular amount.

You will also observe from No. 1 that it is assumed in these three illustrations that income before income tax and dividends remains constant, so that when I come to No. 2 I have the same company, assuming that your dividend deductibility is put through but that Company X doesn't change the amount of dividend paid, so that we start off with the same taxable income, the same dividend on these, but a reduced amount subject to tax because of the deductibility of the dividend for tax purposes.

We have the same tax on what is assumed to be the same rate and we have an increased amount of retained earnings.

Then, in the third case, we are again assuming that there is a dividend deductibility, but this time we assume aribitrarily that the amount of the dividend is increased; in fact, it is doubled, so that the taxable income is reduced by a larger amount; the tax at the same effective rate is also reduced, and the retained earnings remain what they were under case 1.

If you look at Note 2 at the bottom of the page that increase in case 2 is as opposed to case 1, the

B2 dividend is unchanged, the tax is reduced by $150,000 and the retained earnings are increased by the same amount; that is $150,000.

Then, Note 3, we compare case 3 with case 1. Under case 3 the dividend is doubled, increased from $300,000 to $600,000 and the tax is reduced by that same amount of $300,000 and the retained earnings under case 3 are the same as under case 1.

Now, I wonder if you would agree that on the assumptions made the effect of these three sets of assumptions is accurately set out?

MR. GRIFFIN: Certainly I see nothing wrong at the moment with the assumption.

MR. STEWART: Let us assume for our present purposes that this is correct, and if you should find, at a later stage, they are not, I hope you won't mind saying so.

Now, on this basis, with these hypothetical cases before us, I would like to discuss with you certain possible effects of this change that you propose in our tax law.

Let us suppose, for example, that the company with which we are concerned is in a very competitive situation, and that all of a sudden the management of that company finds, by reason of a budgetary change, its dividends have been made deductible. The management would then, might then, say to itself, "If we leave things as they are, if we adopted case 2 here, if we don't change our dividends, our tax is going to be reduced by $150,000 and our retained earnings would be increased by $350,000,

B3 but might not it be a good thing for us to reduce the price of our product a little bit to make ourselves even more competitive?"

MR. GRIFFIN: I am not sure at the moment whether such reasoning might develop. It occurs to me if it was a sound thing to reduce the price of the product to become more competitive it might be so whether or not you made that particular change. In other words, the question of whether or not you reduce the price of your product seems to me stands by itself and is not necessarily affected, but if it were the case that the company were moved to reduce the price of its product at the moment, I can see no particular objection to it doing so. I would think it might be in the general interest if such a condition were brought about.

So far as if you have in mind the possible effect on a competitor who himself is paying tax, a similar thing, is not the answer that the competitor, presumably, is also paying out dividends and will also benefit from this new saving of theirs which will apply equally to all concerned.

MR. STEWART: I imagine that might be so, and if one of the competitors chose not to increase his dividends but to reduce his price he might, in fact, compel the others in the industry to do the same thing.

MR. GRIFFIN: I would think so. Broadly speaking, the forces that play upon the setting of prices are probably multitudinous and you bring a new one in and you have a new situation to which everybody in the business adjusts himself and just how that adjustment will be

B4

brought about or what circumstances will move people in different times would be a little bit difficult to be sure of in advance, but so far, at least, the question you put doesn't seem to me to involve any objections to the idea.

MR. STEWART: Then, I would like to put another one to you: it seems to me another of the forces which would have to be taken into account by management in these circumstances would be the effect of increased dividend pay-out on labour. If labour in a particular industry is extremely wage-conscious at the time and management has to consider the alternative possibilities of paying out additional dividends on the one hand and paying additional wages on the other, is it not possible that some sort of compromise will be reached and part of this reduction in tax will be passed on to labour and part, as already indicated, may be passed on to the customers through reduced prices and only part may be available for increased dividends or utilized for increased dividends?

MR. GRIFFIN: I quite agree that it could, by no means, be taken for granted that the whole of the benefit of the deductibility will be transferred in every instance to the shareholders. I would grant that without hesitation. I would say, however, that the deductibility makes it possible for a corporation to answer the reasonable expectations of the shareholders, to retain them as investors rather than as people anxious to sell their shares in order to make a capital profit.

MR. STEWART: So far in the example that I have put to you you have agreed that the effect of this tax

B5 reduction might be in part to affect price and in part to affect wages. Those particular changes might, I suppose, have a downward or depressing effect on the profits of the company from the short-term point of view, at any rate?

MR. GRIFFIN: I think the answer to that is, we must assume in these hypothetical cases highly intelligent men on the part of the companies that are in question. It is always possible, of course, that management may not be intelligent, that it may make some errors. That it may do the wrong thing, but provided management is intelligent and acts in accordance with the interests of the company that it is managing I think, with respect, it might be a little far-fetched to suggest there might be any injurious effects.

MR. STEWART: I was thinking, if one could, from the short-term point of view, if one's wages and costs went up, this point would have an adverse effect.

MR. GRIFFIN: Yes, you could say without hesitation that if a given volume of your product is going to bring a lower amount and the wages, expenses and deductions increase, undoubtedly some adverse effect will be produced, but broadly speaking I think it's a little difficult to imagine that a corporation is going to be put to increased difficulties and going to lose money just because the Government exacts somewhat less from it in taxation. I will agree myself that possibly a certain degree of burden is useful to any individual in any concern, but I don't think any reduction in the burden of taxation could be alleged as a probable cause of damage to the institution

B6 that is so relieved.

MR. STEWART: Well, I think we understand each other on this point. This is a point on which it is very difficult to be positive. Let me go on, and leaving aside for the moment the question of the effect of a tax change of this nature on profits of the company; let me put certain other possibilities to you: looking, again, at our memorandum here, management, it seems to me, is going to be put in the position that it must leave dividends as they are and increase retained earnings or it could increase the dividends and keep the retained earnings at the same level or at some other level.

Now, let us suppose that this particular company that we are concerned with, Company X, has a crying need for expansion. If that is the case, would the management of Company X not be tempted to leave the situation so far as dividends are concerned more or less as it was; keep the dividends at approximately the same level, increase the retained earnings and use the increase for expansion purposes?

MR. GRIFFIN: To answer that I think you would have to start, and go back to the assumption made that the company in question has a crying need for expansion. If 2 that is the case, before you make the adjustment that we are suggesting in the tax situation the company has the choice, if it wants to expand between three different things: that is, the use of retained earnings, the resort to borrowing or the issue of further share capital. Further share capital is a very doubtful expedient at the present time because of the additional dividend cost, so

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your present alternatives are between the use of your retained earnings and the increase of debt.

Of course, you can't use retained earnings beyond the point to which you have been able to retain them, and probably, therefore, this company, in the crying need of expansion, resorts to debt, which may or may not turn out to be a useful thing.

MR. STEWART: I am going to come in a few minutes, if I may, to what you say in your brief about the effect of a change of this nature on the alternative methods of financing which would be available. All I am putting to you now is, if this change did occur and there was a real need for expansion in this company, it would tempt management to hang on to the additional retained earnings for expansion purposes rather than distribute them by way of dividends.

MR. GRIFFIN: Insofar as the earnings presently available from the present operations, possibly that is the case. The point of view to which we are attempting to adjust our thinking and suggest a correction for the Commission's thinking is that the corporation in question would decide to get new capital it needs for expansion by a further issue of share capital, confident that it could afford to do so because the reasonable return that it would require to obtain that additional money would be deductible just as would the interest on the debt.

/dpw

I might point out that when you speak of the choice between paying out retained earnings, or using them in the business, the choice is not always available to the full extent it might be assumed.

Your balance sheet may show, for example, assets of a certain amount and somebody may say, "Why don't you pay out these retained earnings?" If those retained earnings have been invested, as is the case with our own company, in great concrete structures such as terminal elevators, or in hundreds of building all over the country, once you have spent that money that way, you haven't got it in the form you can pay out.

MR. STEWART: Let me try to emphase my point, Mr. Griffin, in this way: let's compare in this connection two types of companies. One is a new, aggressive and expanding business. The other is an old, established but an aggressive and expanding business. Both companies are suddenly the beneficiaries of this change that you suggest in the tax law.

The new company has an urgent need for funds for expansion. It has a limited ability because it is new and because of its financial position generally to go to the market for funds, whether they are capital or debt. The old, established company, on the other hand, is equally a beneficiary of the change in law, but it could afford much more readily than the new company to pay out an increased amount for dividends and yet expand, with the cash flow which is available to it and because of the fact that it can have recourse to the capital market in a way which a new company simply cannot.

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Would you agree that this proposal of yours, at any rate, would penalize that new company as against the old, established company?

MR. GRIFFIN: I don't think I could agree to that. Wouldn't the answer be this: that as between the old, established company and the young, aspiring company trying to find a foothold in the business, there is a certain present balance of the advantage and disadvantage that is just inherent in the economic structure; the people who want to barge into business and establish themselves there have to take their chances.

Now, any change whatever in the economic climate will affect that balance of advantage and disadvantage as between the two.

It might be a change in the exchange value of the Canadian dollar. It might be a change in the rate of duty on products imported or products exported. Every possible change in the whole economic climate will have some bearing on the comparative position of those two companies. One will profit a little more than the other, but it's surely not the affair of government to try to keep things constantly balanced so that you would, so to speak, freeze everybody in his present comparative position.

There is the case that one company is making more progress than another, but the relative order of different companies in the industry changes from time to time and it is not necessarily a disadvantage to the whole economy when that order changes, as when the second company advances to first rank, or the third company has to drop back to fourth place.

MR. STEWART: The only change I am dealing with at the moment is this particular change you suggest, and I put it to you that if the management of a new company finds that by maintaining dividends at the present level, rather than increasing it, it is going to have increased funds available for expansion through retained earnings, it is likely to seize that opportunity. It would undoubtedly prefer to maintain dividends at the present levels rather than increase them, whereas the older, established company would find it easier to increase dividends and expand through other sources of funds.

MR. GRIFFIN: If I can relate that situation to the general argument that this proposal would tend to keep Canadian industry in the ownership of Canadian shareholders, I might suggest with the weaker company which you suggest there is in no particular danger of being taken over by financial invaders from outside of the country; that it possibly doesn't need, for that particular purpose at this moment, that particular advantage, whereas, a well-established company might be becoming an object of envy to outside interests and be in danger of drawing a take-over bid from somebody or other.

MR. STEWART: Well, Mr. Griffin, I am going to come again slightly later to this question of the effect this change might have on take-overs, but I don't want to labour unduly the point I am on at the moment. I think, perhaps, from what you said earlier, you would agree that if a tax change of this sort were made, there would undoubtedly be some increase in dividend payments by Canadian companies taken as a whole but perhaps the

C4 dividend increase would not be as great as might be thought in the first instance.

MR. GRIFFIN: Yes, I can quite agree with that. I would say that undoubtedly the effect of such a change would be some increase in pay-out, but there would also, I would think, be an increase, to some extent, in retained earnings.

MR. STEWART: I am looking at my memorandum again. I take it that you would not expect that many companies would increase their dividends more than in our case 3. In other words, that while there might be dividend increase, the retained earnings would not likely be decreased.

MR. GRIFFIN: That seems, at the moment, to be a reasonable assumption.

MR. STEWART: In other words, under case 3 the company has passed on to its shareholders all the benefit of the tax reduction, but its retained earnings remain what they were before the change was made.

MR. GRIFFIN: I think I must ask you to allow me to point out, so far as the money available for expansion and capital expenditures is concerned, the proposal I am making certainly envisages the investment of more share capital by Canadians in Canadian companies. I would expect more companies to issue shares. I would expect more Canadian investors to buy those so that the amount of money available for capital expenditures is not to be understood as limited to what presently exists in retained earnings. It is, rather, the increased investment in increased share capital to which I would like to draw your

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attention.

MR. STEWART: I was just about to come to that. We anticipate that if your proposal were adopted, there would be a different proportion of new financing done as between debt and equity. You would anticipate that once the present differential in favour of debt financing was removed, there would be a tendency to increase the amount of equity from that as opposed to debt.

MR. GRIFFIN: Very definitely.

MR. STEWART: Though, I suppose, the new proportion that we establish again would depend on a number of factors. I take it that in each industry, or in each company, there is likely to be a more or less appropriate debt-equity ratio?

MR. GRIFFIN: Yes. That ratio, to a certain extent, is set by the market, and lenders probably observe with a great deal of care the equity in a company behind its debt obligation and there are some companies, I dare-say, which have come pretty near to the tolerable ratio, while others may have a very large borrowing power.

MR. STEWART: By the same token, the management or the owners of each particular company may tend to maximize debt financing at the expense of equity financing because they will want to keep the dilution of the equity to a minimum?

MR. GRIFFIN: Yes. There will certainly be a separate problem to be separately solved in the case of every individual business.

MR. STEWART: You suggest, as I understand it, that if your proposal is adopted, and there is an increase

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pay-out of dividends, this will encourage the retention of equities by Canadians. You suggest in your brief that, at the present time, I am thinking in particular of paragraph 18, you suggest that the prices of Canadian equities are presently high because in part, at any rate, of short supply.

MR. GRIFFIN: Certainly that is a comment that has been made by leaders in the investment banking field. It is not one that I would feel justified in putting forward on the basis of my own knowledge. I have to depend there on what experts in the field say.

MR. STEWART: Would you care to comment on the proposition that the present level of equity prices in Canada may be due, to some extent, to short supply, but that it can also be due to such factors as existence of the dividend tax credit from Canadian companies and the fact that in this country there is no capital gains tax?

MR. GRIFFIN: I think you have to give dividend credit some credit for the present price structure in the stock market.

On the subject of lack of capital gains tax, it is a little more difficult to be precise because, after all, we have what you might call a deferred capital gains tax in Canada in the estate tax, which is ultimately going to catch up with capital profits.

I think that the lack of a capital gains tax may have some effect in encouraging the owners of shares to look for the benefit of ownership, not so much in an income to be derived from that, which is traditionally the benefit people are supposed to look to, but rather to the

C7 opportunity for advantageous selling. That is, it tends to make people a little less concerned with the actual 2 returns and more concerned with the possibility of profiting by sale.

MR. STEWART: Does it not also encourage people to retain shares for a longer time in the hope their capital gain will be greater?

MR. GRIFFIN: Yes, undoubtedly, but I suppose, again, you would have this to take into consideration when you want to make a profitable sale of the asset that you own it is well to take advantage of a market when it exists. It may be decidedly unwise to refuse a take-over bid at the present moment in the hope of getting a higher take-over bid a little later on, although from what one reads in the financial papers, that sort of thing does take place from time to time.

MR. STEWART: I was not quite clear from your brief whether you would anticipate that the change that you envisage or suggest would result in an increase or a decrease in the general price level of equities in Canada. It seems to me that there are, again, a number of factors here; the fact that the return on shares was increased would presumably result in an increase in share prices.

The fact that retained earnings of a company might increase, again, would appear to have a beneficial effect on prices.

On the other hand, you contemplate an additional amount of share financing so that there would be a larger supply of equities paid by whatever money was available

C8 for investment. That might have a depressing effect on prices. I don't know whether you have determined, in your own mind, what the net effect of this on the general price level would likely be.

MR. GRIFFIN: The comparison that would be valid or useful in that case is not that what now exists and what will exist in the future, but rather what may exist in the future under one plan and what might exist in the future under another plan. It would be a very poor method of advocating a change such as I suggest here if I were to predict that to put it into effect would bring down the price of Canadian shares.

/dpw

Certainly, I would put forward no such idea as that at all. I would say in the future, under this plan, share prices might not go as high as they might go under other certain circumstances or depending upon the many unknown factors, you might have an opposite effect.

To try to decide at the moment which of two alternatives would be more likely to come would be a very difficult matter, indeed.

THE CHAIRMAN: Might I interrupt to make my own prediction and see whether Mr. Griffin agrees with it? It would seem to me that this proposal would increase security, would increase equity, for the simple reason it would produce income tax and you previously said that the shareholders would reap some benefit of the reduction of income tax.

Therefore, surely, if they are going to benefit they are going to pay more for securities?

MR. GRIFFIN: I think I could agree with your assumption, if I understand it correctly, and that is, if more income is obtained on shares that they will be more valuable.

THE CHAIRMAN: That is right.

MR. GRIFFIN: Yes, I agree with you, undoubtedly.

MR. STEWART: Then, Mr. Griffin, let us go on to the point you have just made; the situation you

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envisage: let us suppose that this tax change is made today, if we had the power to make it, and that two years goes by. At that time there will be some sort of prevailing price level for Canadian shares. Let us make it five years from now so that the effect of the change will have become clear.

Canadian equities - and let us take blue chips - are now selling at a particular price-earning ratio. They are selling at a particular price as judged by the usual yardstick of valuation. At that time the dividend pay-out, the dividend yield, is a particular percentage. It may be 3% or 4% or 5% of the market price of the stock. There aremore equities, presumably, about; available for purchase. Why do you say in those circumstances Canadians or shareholders are more likely to retain stocks than they are today?

MR. GRIFFIN: I count, for one thing, on the fact that it would be to the advantage of a corporation to secure the maximum holding of its shares by Canadian shareholders. That is something that, to a certain - not inconsiderable extent is within the power of the corporation to influence.

I think the deliberate efforts of a corporation to ensure the maximum holdings of shares in Canada would have a very considerable effect. If you will allow me to give a particular company; say, Company X, that is now paying a $2 annual dividend on its shares, and a rate of return at the present price of anything you like to suggest, if that rate of return gives the shareholder an amount of income, an appreciable amount of income, something

that he takes into account in his expectation as part of his spendable income, if that is sufficient and substantial he will tend to want to keep that because of the income advantage.

If, however, it has not been a substantial part of the total income, a considerable portion, he will be thinking "One of these days the shares of X will be worth more than they are now and at that moment I will sell out."

In other words, his mind will be constantly on the possibility of sale. The possibility of sale would be probably the reason that he bought the shares in the first place. I can pretend to no particular knowledge in this respect at all, but I can recall reading accounts of company meetings in the United Kingdom many years ago and one would read the shareholders were very vigorous in demanding of the management some increased dividends; were very critical of the details of operation causing the dividends to be paid at the same rate as formerly.

One would get the impression that the British shareholder had the inducement to put money into shares - has been accustomed to put his money into shares because of the income he expected would accrue to him on that account.

I think if you read the financial papers these days you come to the conclusion shareholders very frequently buy shares not at all with the idea of obtaining an income from them but rather in the hope of advantageous selling of them before very long.

MR. STEWART: Let us concern ourselves with the investors in the strict sense. Today, let us suppose

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that an investor may consider that there are 100 Canadian stocks in which he may be interested for investment purposes. Let us suppose five years from now under your new proposed regime we have the same investor with the same investment motive, legitimate investment motive, and, in fact, because of your proposal there are 200 or 250 stocks in which he might be prepared to invest.

I am not clear why the fact that there is a larger general rate of dividend returns is going to induce him to retain any particular stock because in your new disposition if someone comes along and makes him an offer for the stock of Company X he has another 150 or 200 stocks which he can substitute in his portfolio for Company X that will yield him approximately the same rate of income return.

They are all stocks that, judged from normal investment considerations, would make suitable investments. I am afraid, looking at the current situation, and this new theoretical situation that you are suggesting I can't quite see why the likelihood for the continuation of stock is more in a new situation than in the present one.

MR. GRIFFIN: The suggestion we have made here, really, is the motive for being a shareholder or for remaining a shareholder would be, to a great extent, that of being a recipient of income, and to that extent the investor's mind would be less on the opportunity of making a satisfactory sale.

MR. STEWART: I see.

MR. GRIFFIN: Persons, for example, who, at the present time, put their money into bonds or insurance

D5 policies or annuities because they get income, those persons, to some considerable extent, might then be more attracted to stocks as an investment.

Now, of course, what you are suggesting to me here is that the price of shares might, in the future, go up to the same ratio as now prevails; that the average ratio as it now ----

MR. STEWART: I am not suggesting that. I am suggesting there will be some prevailing ratio so if you sell one stock you can buy another that will give you approximately the same return.

MR. GRIFFIN: I am not quite sure that I can follow you completely there. I suppose it is possible always to have two points of view as to what may happen five or ten years from now. There will be a multitude of different circumstances at the moment, and that is a little further into the future than I can see.

MR. STEWART: Let me ask you this; this is somewhat a different point: one of the objects of this proposal of yours is to prevent the selling-out of Canadian stocks to foreigners. I put it to you that there are basically two ways of accomplishing that result. One is to encourage Canadians to hold Canadian stock by such devices as our dividend tax credit and the other general approach is to discourage foreigners from acquiring Canadian stocks.

Your approach, I take it, is the second approach. You are discouraging; you propose that foreigners be discouraged by denying the Canadian company this deduction to the extent that their shares are held by foreigners.

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MR. GRIFFIN: The proposal we make would in no way operate on the mind of the investor abroad. It has no impact on him at all. It has the impact on the Canadian corporation which has the motive for securing the largest possible Canadian content in its shareholders' list. I think it would be quite effective.

MR. STEWART: Let me put this to you, Mr. Griffin: let us suppose that Company X here, that we have been talking about, is owned 100% by foreigners. Under your proposal, as I understand it, and let me give you an extreme case - take a Canadian company which is a wholly-owned subsidiary of a foreign company, and which pays out all its earnings or has been paying out all its earnings by way of dividends. This is admittedly an extreme case. As matters now stand that company is in the same position as a Canadian compnay as far as its corporate income tax is concerned. As far as the dividend it pays, the other foreign shareholder is subject to the Canadian withholding tax.

The Canadian shareholder, if the company were owned by Canadians, would be subject to the regular Canadian income tax of Canada less dividend tax credit. Under your proposal, in that particular case the foreign-owned company would be subject to, let us say, a 50% corporate income tax. The company which was owned by Canadians would be subject to no corporate tax at all.

MR. GRIFFIN: Yes.

MR. STEWART: Do you say that is not a discrimination against the foreign investor?

MR. GRIFFIN: It is not too difficult for

individuals and corporations to make very considerable adjustments of their affairs to adjust to whatever may be the tax situation. If, for example, a foreign-owned company may have set up a subsidiary in Canada and it may have suited its purpose in view of the prevailing tax laws at the present time to employ a certain corporate structure.

It is not too difficult to revise that corporate structure, if necessary, so that the Canadian subsidiary would, in essence, be borrowing funds from the parent company. It wouldn't seem to me that you were going to do any damage to the investor who had put his money into the company by bringing about the change that is suggested.

There is such a multitude of ways of adjusting these things to meet changes either in the economic climate or in the tax situation.

MR. STEWART: Well, Mr. Griffin, I think I will abandon some of these more general points I am putting to you, or have been putting to you, and come to some points which relate to your company itself.

You indicate in your brief that in the post-war period your company has relied on debt financing to a considerable extent. Do you consider that this has been harmful to the company?

MR. GRIFFIN: If you look at the published reports of the company I think you would conclude that has been reasonably successful, and, consequently, it hasn't suffered any great amount of actual damage. I would suggest, however, that if we had been able to continue

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E/MR/dpw

issuing share capital along the lines of the original plan we would have done still better than we have done. In other words, we don't come before you and show you the wounds that we have; we would have to ask you to consider how much better off we might have been had we been able to enlarge the foundation on which the company is erected.

MR. STEWART: You would prefer for the future to finance through the issuance of shares rather than the issuance of debt?

MR. GRIFFIN: I think we would have to say this: that we would find it hard to envisage a time when a company might have extinguished all its long-term debt. We should be much better off, I feel sure, if we had a broader foundation of share capital.

It is possible that there arelimits to the expansion you can make on a given basis of capital stock. Certainly, all we can show from the record is this: that at one time we desired to issue more share capital and we planned to doso andbecause of the tax situation we deliberately shifted to a greater use of borrowed funds. The judgment of the company at the time certainly would have been that it would prefer to go on with the issuing of shares. We did not, for the tax situation made it so difficult.

MR. STEWART: If you were doing additional share financing would you be subject to any limitation as to the type of person who could purchase these shares?

MR. GRIFFIN: At the present time the share capital of the company is divided into two classes: there is a class of preferred shareswhich may be held by

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the general public but which, in fact, are mainly held by customers of the company and by people who are also holders of voting shares. If we were to issue more share capital, it would predominantly, undoubtedly, be of the preferred share class, what we call Class A shares.

While we do not limit the persons who may hold those shares, we do limit the number of shares that may be held by any one person to 250, making a total par value of $5,000. That by itself excludes almost automatically the large investor who will not be bothered with the administration of a small amount, and, in fact, most of those shares are held by people who actually do business with the company.

Now, I think, perhaps, I am not being quite responsive to your question, which was as to with which people we would attempt to place these shares. Undoubtedly, in issuing further share capital the company's endeavour would be to place such shares with active customers.

We find a great deal of advantage in the customer ownership of these shares. Undoubtedly, we want to continue that.

MR. STEWART: Then, your post-war financing, Mr. Griffin, has been done to a considerable extent through the issuance of patronage dividends in the form of debentures?

MR. GRIFFIN: Yes.

MR. STEWART: If I look at your balance sheet as of July 31st, 1962, which was attached to your brief, I assume - and perhaps you can tell me whether these assumptions are correct or not - that the reserves which

E3

you carry under liabilities, those we know, they are the deferred taxes on income represented with bonds because of the difference between income for corporate purposes and income for tax purposes. When you say reserve for contingencies and self-insurance, I take it that is basically a surplus account of reserves. You show the general reserve; the capital surplus, no doubt, explains itself. The earned surplus - that explains itself. You have, therefore, financed through retained earnings to a very considerable extent?

MR. GRIFFIN: Oh, yes, undoubtedly. I might say that through the long history of the company, which is quite an old one, it has consistently been the theory of the company that it should build up its strength through retained earnings.

MR. STEWART: I would like to ask you why you put this recommendation forward, looking at it strictly from the point of view of the United Grain Growers itself. I am not suggesting that in putting it forward you have not been motivated by the thought that this would be in the best interests of your country as a whole, but no doubt you also consider it would be in the best interests of the United Grain Growers.

Now, I take it that the amounts that you have paid out by way of dividend in the past, by way of cash dividends, have been limited each year, in recent years, so that the saving in corporation income tax itself is not the most compelling motive.

MR. GRIFFIN: I don't think I would want to be put in the position of denying some concern about the

E4 amount of tax actually paid, but we were brought to this recommendation through the broader question of the fundamental financing structure.

MR. STEWART: Were you comparing that structure with the structure of the wheat pools, for example?

MR. GRIFFIN: Undoubtedly we have continuously compared our structure with that of our competitors in the business, not only wheat pools, but I would say all others, and I think I would like to put in this point: I trust there is no suggestion here that we were looking for a comparative advantage over the wheat pools because we happen to have share capital and they don't, because I would expect that whatever concessions were made in respect to deductibility of dividends of share capital would equally apply to all amounts that might be otherwise subscribed, but had also been acquired in the same way by direct sale of obligation.

MR. STEWART: In any event, the effect of this, as far as you are concerned, would be to equate your position more closely with that of the wheat pools as regards overall distribution?

MR. GRIFFIN: It would have some effect in that, not so much on account of tax situations but because for reasons of their own, undoubtedly perfectly good ones, they have refrained for many years past from paying any return on their capital.

THE CHAIRMAN: Mr. Stewart, when you come to a good point, we might break.

MR. STEWART: I have one more basic point, Mr. Chairman, which follows on. In putting this recommendation

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E5 forward I am thinking that this would equate the position of the line companies more closely with the position of the United Grain Growers and the wheat pools on the other hand. In other words, let me explain my point: the line companies, as I understand it, are concerned about the fact that patronage dividends are deductible in the computation of income. If ordinary cash dividends on shares were made deductible, then to some extent, at any rate, the position of the co-operatives and the United Grain Growers on the one hand would more closely approximate that of the line companies. Would this be a beneficial result, do you think, from your proposal?

MR. GRIFFIN: Certainly, it is a question that plays no part whatever in arriving at the recommendation we made. We have not been restrained from making it by the fact that competitive institutions might benefit from it exactly the same way that we would benefit from it.

Broadly speaking, we would expect that others would derive an advantage from it just as we would, but I cannot claim that we were so generous in our thinking as to be very much concerned with the desire to benefit them. Undoubtedly, we were brought to make this recommendation by consideration of our own problem, and we have endeavoured to show that it might be to the general advantage also.

MR. STEWART: Mr. Chairman, in view of the hour, I think I would close my examination at this stage.

THE CHAIRMAN: I prefer that we break before you close your examination. I would like to speak to you

E6 during the recess.

We will stand over for ten minutes.

--- Short Recess

MR. STEWART: Mr. Griffin, with your permission, I would like to raise two other points with you before we close. The first is this: at the present time we have a particular system of taxation of corporate income in this country which you suggest may have had or may have some effect on the distribution of earnings after tax. The change that you suggest is designed, among other things, to increase the distribution as opposed to the retention of earnings.

Now, the question I would like to put to you is: should fiscal policy, tax policy, be used for that particular purpose? Should the Government take a new step which is designed to encourage distribution as opposed to retention?

MR. GRIFFIN: Certainly I would have no idea that the Government ought to attempt to force the distribution of earnings, nor do any more than to make it reasonably possible for a company to distribute its earnings, rather than more or less force retention when expansion is desired.

There is no thought whatever in this presentation that there is anything wrong with the accumulation of savings in the hands of corporations. It has been my own idea - I am not attempting to speak for anyone else in this respect-that on the whole the existence of

corporate savings was very important in the general economy, and certainly our own company has always thought it desirable to build up its extensive surplus. So the argument as to the distribution of funds goes no farther than to enable what might be called a reasonable dividend to be paid on share capital and to encourage the use of share capital rather than debt for purposes of expansion.

MR. STEWART: My other point was somewhat a related one that you have already touched on, or got close to. These earnings which are presently being retained by companies are used for capital formation, by and large. If an increased proportion of tax earnings is distributed to shareholders, the shareholders may save all the increased distribution, or they may save part of it and spend the rest on consumption expenditures, or they may spend the whole works on consumption expenditures. This will vary from shareholder to shareholder.

The probability, though, is that if an increase in the proportion of these earnings is distributed by way of dividend to shareholders, there will, on balance, be less rather than more capital formation.

MR. GRIFFIN: I think possibly in making that suggestion, you are tending to ignore one probable effect of the suggestion we made, and that is that money which is now paid in interest on debt obligations might, in the future, be paid in the form of dividends on share capital.

To the extent that that takes place, there would be no alteration whatever in the formation of capital.

MR. STEWART: Only perhaps in the sense that

ES the interest on the debt may find its way into different hands from the dividend on the shares?

MR. GRIFFIN: Yes, that is a possibility, of course.

MR. STEWART: On your basis, what you are suggesting, as I understand it, is that income tax be materially reduced. We have, I think, agreed that not all of that reduction is going to be passed on to shareholders in the way of dividend, but you expect that some of it will be, and there is, presumably, going to be a greater overall distribution on that basis to the holders of obligations or shares of the companies than there had been before.

Is there not, as I say, a risk that your capital formation on balance will decrease?

MR. GRIFFIN: It doesn't seem to me so, sir. The capital formation would take a different form. In one case, as at present, it tends to take the form of debt obligations. We have ourselves, for example, outstanding bonds and notes and debentures. That sort of thing we would expect in the future, under a plan such as this, would have a greater extent of the capital we employ represented by shares.

MR. STEWART: Well, again, just so I am sure we understand each other on this, looking at this memorandum that I put to you earlier, let us suppose, for the sake of argument, that a great many companies, such as Company X, follow alternative 3. Under alternative 3 the tax on Company X has been reduced by $300,000 and we are agreed that part of that $300,000 may be distributed, so this $300,000, if you like, has been taken away

E9 temporarily from the public sector and has been put into the private sector, by one way or another. Some of it has gone out in increased distribution to shareholders.

Now, if there are a great many Companies X which are in that position, is there not a substantial increase overall in the distribution to shareholders and does it not become important from the point of view of capital formation to decide just what they are going to do with the extra amounts?

MR. GRIFFIN: If a suggestion such as we make is for the general good and encourages the Canadian economy as a whole, I think you can assume that there would be some increase out of that general benefit in the formation of capital in Canada.

MR. STEWART: I think that is probably a fair answer. What you are suggesting is this: that the monies which are distributed, whether they are saved or expended on consumption expenditures, will be used beneficially as far as the economy as a whole is concerned, and the thing may balance itself out or produce on balance a more favourable result than what we may have?

MR. GRIFFIN: Yes. Looking again at your illustration numbered 3, there is nothing in that as compared with No. 1 to reduce the formation of capital.

/dpw

Rather you might expect with the greater distribution to shareholders that is provided for here it would result in the formation of some capital in their hands.

MR. STEWART: Yes, to the extent there is a distribution.

MR. GRIFFIN: Yes.

MR. STEWART: Mr. Chairman, I think that is all I have.

THE CHAIRMAN: Thank you, Mr. Stewart. We may have a few questions here. I have one matter I pondered. It is possible Mr. Griffin considered it and can be of some help to me. The effect this proposal would have on capital values might, I think, be irregular, and I say that for this reason: the price at which shares trade on the stock exchange is certainly influenced by profits. Right now in Canada we determine profits after income tax, and there is usually some relationship between profits and the price at which shares trade. Income tax, at the moment, varies in accordance with the amount of income before tax. In future, under this proposal, the tax would vary not only with the profits, but also with the proportion of profits which were distributed to shareholders, so there is another fact introduced into the computation of taxes and, therefore, would share value fluctuate in accordance with the proportion of profits which were distributed to shareholders, and, if so, would that not cause a substantial variation from time to time in the shares traded on exchanges? Have you considered that at all?

MR. GRIFFIN: You mean the possible variation in

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the price of a single issue of shares; that is shares of Company X?

THE CHAIRMAN: Quotations on the stock market.

MR. GRIFFIN: That is right. The standard theory of the price of a security, as I recall it, is that it is supposed to be the present value of the expected future income. If you enlarge the expectation of future income you doubtless tend to enlarge the price. If there is a considerable fluctuation in the rates of dividends from time to time I think it would have an effect in producing a greater variation in price values from time to time, but provided that the expectation of returns remains fairly constant; that is, people get used to a rate, say, of $2 per share on the shares of Company X, and more or less expect that to be maintained, then you have no influence tending to make the share price vary.

Share prices do, of course, vary tremendously at the present time, and I imagine that they always will, but I must confess I don't see the suggestion we have made as tending to either increase or decrease such fluctuation in the future.

THE CHAIRMAN: Thank you. I was a little concerned that the impact of it might enhance the value of some shares and diminish the value of others.

MR. GRIFFIN: On that, if you mean the immediate impact, undoubtedly there would be a change from present valuation of some securities. Some of them might decrease; if the preference of investors were to run to a particular lot of securities, well, then, others might tend to lose in favour of that account. Broadly speaking, I think you

have to say this, that every change that is ever made in economic conditions tends to be reflected in changes throughout the economy. That is, you can't introduce a new tax or lower an old one or increase or decrease the rate of personal income or the rate of corporate tax without introducing new elements of valuation.

THE CHAIRMAN: Thank you.

COMMISSIONER PERRY: I would just like to ask whether you have taken into account the extent to which the grossing effect plus the progressive rate of income tax, the extent to which this might overcome the tax reduction at the corporate level. I give you a very simple demonstration to show what I am getting at.

That is, if, under present conditions, assume there is a $100 profit that is being earned, taxable profit at the corporate level that is then reduced by, we will say, 50% tax to $50. That is distributed, we will say, for the purpose of argument, to a taxpayer, with a 50% marginal rate. The effect of the dividend tax credit in this case is to reduce his marginal rate to 30%. He has to pay 30% on half the original $100 that was earned which gives him a total effective rate of 15% on the original $100, giving him a total tax of about 65% on the original $100.

If your proposal worked as you intended he would receive twice the dividend that he formerly was. He would receive the whole $100 which would mean that his own taxable income had been doubled, and this might have the effect of putting him into the 60 or 70 percent marginal rate of personal income tax on that $100 which

F4 would largely - I am assuming the dividend tax credit has gone - which would largely wipe out the benefit intended. This is not just a theoretical demonstration because for personal income tax one has to think of corporate tax as a deductible item; really part of corporate income which doesn't come into the personal income tax which under your scheme would. Have I made my point clear?

MR. GRIFFIN: To this extent: I think you are asking me to assume that as a result of such a change a given shareholder receives more dividends than would previously have been the case.

COMMISSIONER PERRY: I assumed that was the object of the exercise.

MR. GRIFFIN: You are also assuming that the dividend credit would have disappeared?

COMMISSIONER PERRY: That is right.

MR. GRIFFIN: That might or might not be the consequence of the recommendation we have put forward. I must admit in my own mind I have often thought of the dividend credit as being intended largely as an alleviation of the very large rates of tax that are required on large incomes.

COMMISSIONER PERRY: That is a fairly frank appraisal of its purpose.

MR. GRIFFIN: I have never seen an admission to that effect made. I have always supposed that it was the underlying condition, and, frankly, I wouldn't expect the dividend credit to disappear except concurrently with some modification of the progressive rate on very large

F5

incomes.

COMMISSIONER PERRY: I see. That concept, then, would defend the retention of dividend tax credit. I don't think, in fact, most other people putting up a scheme of your kind would assume the retention of the dividend tax credit. They would accept the argument that this had been done as a means of alleviating so-called double taxation and without federal taxation dividend credit would have to go.

MR. GRIFFIN: In our submission I think we set out the fact that we don't concern ourselves with the problem of double taxation, to what extent it actually exists, and to what extent corporate taxes may be passed on to the general public or to the wage-earner instead of being entirely a burden on the shareholder - that represents a field of controversy which we have deliberately avoided. I have no doubt the Commission will come to consider that, but so far as we are concerned we can't give you any help on that.

COMMISSIONER PERRY: I would just like to suggest to you that there is some validity in the point I was making even assuming retention of the dividend tax credit, because it is inevitable under your scheme that the shareholder receives more income inevitably under a progressive rate of tax and that puts him into a higher bracket, and to the extent he is moved into the higher bracket he has lost the benefit of being relieved of corporate profit tax. It is a varying sort of thing. It seems it isn't all benefit.

MR. GRIFFIN: Yes, undoubtedly there are some

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offsetting factors and it would require some close calculations to decide what they would amount to, and, of course, they would amount to something different in the case of almost every different person.

COMMISSIONER PERRY: I think you would be surprised to find some people might be worse off under your proposal if the change were drastic enough.

MR. GRIFFIN: It is quite conceivable. If there are such persons I would suggest by definition they are already so well off that perhaps it doesn't matter.

COMMISSIONER PERRY: In that respect, they don't have your sympathy.

MR. GRIFFIN: I am hardly acquainted with them, sir.

COMMISSIONER GRANT: I would like to ask you a question or two in connection with your balance sheet, Mr. Griffin. In your consolidated earnings statement which appears on page 28, out of net earnings after profit, after expenses of management, and after charging $650,000 for patronage dividends, you have a profit of $2,181,000; is that correct?

MR. GRIFFIN: We use the word "earnings."

COMMISSIONER GRANT: I see; earnings, yes. Out of which you have paid interest on funded debt and other long-term debt of $484,000. How much of that debt would be in the form of patronage dividends which have been issued in the form of certificates bearing interest at the rate of 3%, would you estimate?

MR. GRIFFIN: The amount of such debentures outstanding and credits, is approximately $5 million. The

F7 interest provided on this would amount to $150,000 out of that amount of $484,367.

COMMISSIONER GRANT: Yes.

MR. GRIFFIN: Included in that there is also interest on bonds and on promissory notes. As you will see from the balance sheet we have at the moment outstanding a considerable volume of debt in the form of promissory notes.

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COMMISSIONER GRANT: Well, then, would it be fair to say that your customers, in addition to receiving a patronage dividend of $650,000, also received interest?

MR. GRIFFIN: Yes.

COMMISSIONER GRANT: In the form of another $150,000.

MR. GRIFFIN: Very much so, sir.

COMMISSIONER GRANT: Your share capital apparently was split into Class A and Class B subsequent to incorporation of the company?

MR. GRIFFIN: Yes.

COMMISSIONER GRANT: Your Class B is your voting stock and it is held by your customers?

MR. GRIFFIN: It can only be issued to customers, yes.

COMMISSIONER GRANT: But a customer does not have to be an owner of shares?

MR. GRIFFIN: Not at all. Our elevators are open to the general public.

COMMISSIONER GRANT: They receive grain from all growers?

MR. GRIFFIN: Yes.

COMMISSIONER GRANT: Thank you.

COMMISSIONER BEAUVAIS: On page 13 you say you limit deductibility to an amount not exceeding a rate on capital employed as defined in the Excess Profits Tax Act. I presume that it would be about 6%. You say that in sub-paragraph (c). So in one year you would pay nothing, then the next year you could, in your mind, suggest you could deduct 12%?

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MR. GRIFFIN: I must admit, sir, that is a question that has not presented itself to me. I think in the administration of the Act the answer would be no. I would expect that if such a suggestion were adopted, there would be established for each company a certain level. It would have to be proved to the authorities and as I envisage administration, I would not envisage any cumulative feature of it; not that I would argue against a cumulative feature if the Commission in its wisdom should recommend to have such a variation.

COMMISSIONER BEAUVAIS: Another question on the same page, in sub-paragraph (a) you say that you limit deductibility to dividends paid to residents of Canada. You probably will agree that in some cases it might be very difficult to ascertain whether the shareholders are Canadians or foreigners, especially when the shares are in the name of a trust.

MR. GRIFFIN: Yes. I imagine that difficulty presents itself at the present moment in connection with the application of the withholding tax.

I have not envisaged any greater policing of that, you might say, than would be involved in the simple address of the shareholder.

MR. STEWART: Could I have this memorandum, which I handed Mr. Griffin, marked as an exhibit?

THE CHAIRMAN: Yes.

THE SECRETARY: It will be Exhibit 189, Mr. Chairman.

G3 --- EXHIBIT NO. 189: Sample memorandum.

THE CHAIRMAN: We have no further questions up here, Mr. Griffin. If you gentlemen have anything further you would like to add, we would be very glad to hear from you.

MR. GRIFFIN: Nothing to add, sir, except to thank you for the very patient hearing and for the care that you have taken to examine the proposal we put forward.

THE CHAIRMAN: We, on our part, are very grateful to you, sir. This has provided us with a line of thought which is going to be useful and certainly going to cause us considerable discussion and probably some research. Thank you very much, indeed, for your help.

MR. GRIFFIN: Thank you.

THE SECRETARY: Mr. Chairman, the next brief is being presented by the North-West Line Elevators Association. Mr. Cecil Lamont, President, is here to speak to the brief, together with a number of his associates. Mr. Lamont will introduce them to you.

I would like to enter this brief into the record as Exhibit No. 190.

--- EXHIBIT NO. 190: Submission of the North-West Line Elevators Association.

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SUBMISSION OF THE NORTH-WEST LINE

ELEVATORS ASSOCIATION

Appearances: Cecil Lamont
A.J. McKitcham
Hazen Hansard, Q.C.
W. McG. Rait
H.C. MacGregor
George Sellars
A.S. Leach
Charles Kroft
George Heffelfinger

THE CHAIRMAN: Thank you, Mr. Secretary. Good morning, Mr. Lamont, gentlemen. You are going to introduce your associates to us, and on my part I will introduce you to the Commission, whom I think you probably know already. Their names are all before them if you do not.

We have received this with a great deal of interest. We certainly have some questions to put to you, but before proceeding, is there anything you would like to address to us?

MR. HANSARD: Mr. Chairman, I am Hazen Hansard. I am appearing before the Commission on behalf of the North-West Line Elevators Association with Mr. Lamont, who is to present the submission and perhaps it would be convenient if I said that in addition to Mr. Lamont we have here, representing the Association, Mr. A.J. McKitcham, who is the Secretary-Treasurer of the Association and the members of the Executive of the Association who are Mr. W. McG. Rait, President of the Pioneer Grain Company Limited.

Mr. H.C. MacGregor, who is President of the Alberta Pacific Grain Company Limited, and also Vice-Chairman of the Federal Grain Company.

Mr. George Sellars, President, Federal Grain

G5 Company; Mr. A.S. Leach, President of the Searle Grain Company Limited; Mr. Charles Kroft, President, McCabe Grain Company Limited, and Mr. George Heffelfinger, the President of the National Grain Company Limited.

Mr. Chairman, I have no particular opening statement to make. I will leave that to people who know more about the facts than I do, but I think it is appreciated by the Commission that the North-West Line Elevators Association is a body which represents the private grain handling industry in Western Canada. That is to say, as distinct from the co-ops, free pools, and the last organization which was appearing before you.

Now, Mr. Chairman, the brief has already been filed with you, but in accordance with the Commission's suggestion, as we understand the briefs are not being read into the record. Mr. Lamont has a brief summary of our submission which I would ask him to put before you.

THE CHAIRMAN: Thank you, Mr. Hansard. Yes, Mr. Lamont? Stand or not, as you please.

MR. LAMONT: 1. Mr. Chairman and Members of the Commission, as President of The North-West Line Elevators Association may I say that we welcome the opportunity of appearing before your Commission and of bringing to your attention as forcefully as we can the serious discriminatory situation which confronts our Members and which is dealt with in detail in the formal Submission already filed with you on behalf of the Association.

2. It is our understanding that you do not wish formal submissions such as we have made to be read into the record but would prefer us to open our oral

G6 submission before you here with a brief summary of the position we take, following which I, and/or those with me, will be happy to answer questions or amplify any aspect of our Submission as desired within the limits of the information available.

3. The North-West Line Elevators Association has been in existence since 1899 and it speaks for what is sometimes referred to as the "private" segment of the grain handling industry in Western Canada. Its membership comprises the fifteen ordinary joint stock companies listed at the outset of our formal Brief which as a group are known as the "Line Companies" and which are engaged, through the operation of country elevators in the three Prairie Provinces and terminal elevators at the Lakehead and on the Pacific Coast, in the handling of western grain in direct and very active competition with the Alberta, Saskatchewan and Manitoba Wheat Pools and the United Grain Growers Limited, which four organizations represent the balance of the grain handling industry and purport to carry on business as co-operatives.

4. Our main concern in this Submission is the fact that our Member Companies, as ordinary joint stock companies, are called upon to pay income tax at full corporate rates on the income they earn whereas their co-op competitors, who perform identically the same functions in the grain handling business and derive their revenues from that business from the same identical sources and in the same identical way, have managed to pay only a small fraction of income tax on their earnings, a great part of the balance of which they retain and use

G7 competitively against us. Without going into detail, the figures set out in support of our Brief show that while our Members contribute fifty per cent and more of their income to defraying the cost of Government, their co-op competitors have managed to pay less than ten per cent.

5. That this retention by the co-ops of earnings as tax-free capital, plus the use of the so-called patronage dividend as a competitive weapon, have given the pools and the U.G.G. an unfair trading advantage over our Members is amply illustrated by the continuing erosion of the private grain trade which has occurred and has been matched by continuing expansion on the part of the co-ops. Thus in the crop year 1930-31, selected because at about that time the three wheat pools abandoned the pooling operations they had previously conducted for the account of their members and ceased in fact to be true co-operatives in any sense of the word, the pools and the U.G.G. operated 38% of the total of 5,146 licensed elevators and did an estimated 46% of the total business. At that time, the Line Companies operated 62% of the elevators and enjoyed 54% of the business. By contrast, in the crop year 1961-62 (the last year for which figures are available) we find the so-called co-ops operating 56% of a slightly larger total number of elevators and doing 66% of the total business.

6. The history of Sections 73 and 75 of the present Income Tax Act and predecessor legislation under which this startling and we believe alarming result has come about is dealt with extensively in our Brief.

7. It is literally true that, so far as the

G8 grain handling business is concerned, the Line Companies for whom we speak and the grain co-ops now carry on and for many years have carried on identically the same business from which they have derived identically the same revenues. As is sometimes overlooked, the marketing of wheat, oats and barley, which represents the bulk of the grain crop, is not done by or under control of the grain handling companies whether line or co-op. This function is performed by the Canadian Wheat Board. The handling and storage charges received by the grain handling companies in respect of their country elevator operations and the fees they may derive from their terminal elevator operations are identical for both the Line Companies and the co-ops. The profit or loss derived from such operations depends in either case exclusively on volume handled and efficiency. So far as the balance of the grain crop is concerned, i.e. rye, flax and rapeseed, the Line Companies and the co-ops again conduct their operations on identically the same trading basis and make a profit or loss in respect thereof in identically the same way.

8. The three provincial wheat pools came into being in 1923-4. The U.G.G. and its predecessor company had been in business as far back as 1906. As your Commission will be aware, when income tax was first introduced in Canada by the Income War Tax Act in 1917, the low rate of tax involved was not such as to create much competitive advantage in favour of those who managed not to pay it.

9. At the outset of their operations, the pools did conduct a pooling operation in the marketing of their members' grain and, in order to build up capital for

G9 the acquisition of elevators and other facilities and for the carrying on of their operations, they withheld from their members so-called commercial and elevator deductions which, in the course of time, amounted in the aggregate to a very large sum. Following an unsuccessful attempt by the Department to recover income taxes in respect of such reserves and as a result of other factors mentioned in our Brief, the Income War Tax Act was amended in 1930 by the insertion of the famous Section 4P which in effect exempted farmers' co-operatives and the like from the payment of income tax. During the period from 1930 to 1946 while Section 4P was in the Act there was not therefore the same incentive for co-operatives seeking to avoid payment of income tax to conduct their operations so as to appear to be earning no income. The incentive then became one to preserve the appearance of being a farmers' co-operative or the like.

10. During the Depression and the years of poor crops which coincided, there was moreover little income to which to apply the relatively much lower income tax rates then prevailing and the competitive problem with which our Brief is concerned did not therefore really arise in serious proportions until after the outbreak of the Second World War with the high tax rates it engendered coupled with the return of bumper crops in the early 1940's. As a result of increasing protest that many so-called co-operatives, including the wheat pools, were taking advantage of Section 4P to avoid payment of income tax, although they did not quality for exemption under its terms, the McDougall Royal Commission on Taxation of

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Co-operatives was appointed in November 1944. The appointment of this Commission, among other things, forestalled proceedings against the wheat pools which had been commenced and were about to come on in the courts involving alleged liability for payment of back taxes, interest and penalties totalling a reported $25,000,000.

11. The McDougall Commission after full enquiry in its report reached certain basic conclusions and made recommendations based thereon which were the subject of legislative action in 1946. The McDougall Commission's basic conclusions were that co-operatives were capable of earning and did in fact earn income and ought to be taxed thereon on the same basis as other taxpayers. They therefore recommended repeal of Section 4P and, dealing specifically with the subject of patronage dividends, recommended, as a solution which they apparently thought would remove discrimination as between co-operatives and ordinary business, that everyone be entitled to deduct patronage dividends provided they were paid in cash or its equivalent or credited in exigible form. They also recommended that special treatment be afforded to new co-operatives, on a theory we submit quite unfounded that they were difficult to establish, by exempting them from income tax for the first three years of their operation.

12. These recommendations were implemented by Parliament in the 1946 amendments to the Income War Tax Act which, with one exception, resulted in the legislation now found in Sections 73 and 75 of the present Income Tax Act.

13. The basic concept of this amending

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legislation was, as clearly appears from Sub-section(1) of Section 75, that patronage dividends, to qualify for income tax deduction, would have to be paid out in cash or its equivalent or credited in exigible form. This concept of actual payment was unfortunately watered down first by paragraph (1) of Sub-section 4(f) and subsequently by further amendment in 1948 by the addition of paragraphs (2) and (3) of Sub-section 4(f). These provisions, extending the meaning of the word "payment," have tended to nullify the basic recommendation that dividends should be actually dispersed. They are quite obviously tailored to fit the peculiar circumstances of the wheat pools who have made great use of them.

14. It will also be observed that the amendments thus introduced called for payment of patronage dividends, not to members but to customers. This had to be done in order to carry out the idea that everyone should be entitled to deduct such payments. Ordinary joint stock companies of course do not have members.

15. Notional "payments" under paragraphs (1) and (2) of Sub-section 4(f) have enabled the wheat pools and the U.G.G. to declare so-called patronage dividends which never in fact are dispersed but are retained on an indefinite basis either as having been used to redeem past certificates of indebtedness or to satisfy so-called "forced loans." The extent to which this has been done is set out in our Brief and supporting data and constitutes one of the major sources of discrimination about which we complain. The point of course is that ordinary joint stock companies such as our Line Company Members do

not have certificates of past indebtedness to redeem under paragraph (1) and are not in a position to force loans from anyone under paragraph (2).

16. Moreover, the idea that making patronage payments deductible for everyone would remove discrimination in favour of co-ops has completely failed. The reason is that ordinary joint stock companies do not deal with their members but with the public at large. Accordingly, patronage payments made by them in fact constitute cash rebates. On the contrary, in the case of co-ops, it is easy to convert the few customers who are not members into members and payments made to members are in fact returns to them on the capital they have invested in the business.

17. Section 73 which accords the three-year exemption to new co-operatives is of course something apart but we submit, on the record disclosed in our Brief, that new co-ops are not entitled and ought not to be given special tax treatment of this kind which again discriminates against every ordinary business.

18. It is finally our contention that patronage payments under Section 75 are no different, where they are made by a co-operative, than are ordinary dividends paid by joint stock companies to their shareholders. Here they are in effect dividends, whereas in the case of ordinary joint stock companies, patronage payments to customers are of course no such thing. In this connection and in particular when considering the situation as it exists in the grain handling trade today, it is emphasized in our brief that, apart from the fact that the co-op

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revenues from grain handling are identical with those earned by their Line Company competitors, co-op revenues used for patronage payments, whether in cash or on some deferred notional basis are also derived from an increasingly large number of very substantial side lines in which the co-ops engage on a purely commercial basis.

19. It is therefore our submission that your Commission should recommend that patronage payments, by whomsoever made should no longer be permitted as tax deductions but should be treated as ordinary dividends where they go to the members of a co-op who are the owners of its equity capital; that such payments should be taxable in the hands of the recipient but obviously in fairness such recipient should receive the same relief as is accorded the shareholder receiving ordinary dividends; and that Section 73 should be repealed.

/dpw

Thank you, Mr. Chairman. This is the summary.

THE CHAIRMAN: Thank you. We will proceed to questioning. Mr. Hansard, do we direct our questions to you?

MR. HANSARD: I don't propose to answer the questions. If I can be of any assistance I will be happy to do it. I think Mr. Lamont is quite capable of handling himself if the Commission wishes to ask any questions. I may say, of course, it may be more advantageous for someone else in the group to deal with a particular question. I think Mr. Lamont should field the first questions.

THE CHAIRMAN: Mr. Stewart, will you proceed?

MR. STEWART: Mr. Lamont, I wonder if you would, at the outset, tell the Commission how long you have been connected with your Association.

MR. LAMONT: I have been connected with the Association since 1939.

MR. STEWART: How long have you held your present office?

MR. LAMONT: Since 1942.

MR. STEWART: Now, Mr. Lamont, this brief of your Association is concerned, in particular, of course, with the tax treatment of the grain trade on the one hand and the grain marketing co-operatives on the other. Most of the questions of mine are going to be directed to that particular situation. There will be some questions which relate to co-operatives generally, but basically most of the questioning, you will find, will be concerned with the position of the grain trade as between those different types of companies.

I wonder if, at the outset, I could put to you certain characteristics which I suggest appertain to these two types of organizations and get your comments on what I put to you so that I can find out whether we are in agreement on what the basic characteristics are in each case.

I take it that the members of your Association, the Line Companies, are, as you describe them, joint stock companies; that is, they are companies which have share capital, that the shares of these companies may or may not be held by people who sell their products to these companies, the grain.

That ordinarily, at any rate, each shareholder - and perhaps for simplicity's sake we could confine those to the holders of the common shares of these companies, each shareholder will have one vote at a company meeting for each share he holds and that if these companies carry on their operations at a profit that profit will accrue to their shareholders, and assuming - again, for the sake of simplicity - that there is one class of shares outstanding, it will accrue to those shareholders in accordance with the number of shares they respectively hold.

MR. LAMONT: First, I notice you call them marketing co-operatives. They are grain handling co-operatives. They are no longer marketing, really. That passed out in 1931. They did originally market their members' grain; they no longer do so. The Wheat Board is the marketing agency. The investor in the company naturally gets - if a profit is earned, the profit will eventually, after taxes, after income tax, go to the investor or be held in the company's treasury for purposes of the company.

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MR. STEWART: As far as I am concerned at the moment nothing turns on the meaning of grain marketing and grain handling companies. I gathered from your brief there were differences as between the different types of grain in some respects and that the Wheat Board is the marketer in some, but there are other grains which are handled by these companies.

MR. LAMONT: Flax and rye and rapeseed, which are very minor in quantity as compared with wheat, oats and barley.

MR. STEWART: Let us call it merely the grain co-operatives. I am referring in particular to the three provincial associations and to the United Grain Growers and I am trying to distinguish between those four companies on the one hand and the members of your Association on the other.

Taking the members of your Association, would the characteristics that I mentioned pertain to those particular companies?

MR. LAMONT: Not to all of them. We have the Scottish Co-operative Wholesale Society, a member of our organization. Otherwise, the companies are publicly or privately-owned by investors.

MR. STEWART: Well, now, let us take these four grain co-operatives, the three Pools and the United Grain Growers: I would like to see if these particular characteristics which are suggested to you are characteristic of these companies. I realize, of course, there are certain differences in this regard between the United Grain Growers on the one hand and the three Pools on the

H4 other.

Would it be fair to say that these four companies, four co-operatives, may or may not have share capital; that their members are usually farmers who do sell their grain to the companies; at meetings of the particular co-operatives the member is entitled to one vote as a member as opposed to one vote per share, and if these companies carry on their operations at a profit, these four co-operatives, if there is a return paid on share capital - that is, if there is share capital - if a return is paid on it, it is a limited rate of return and the balance of the earnings for the particular period is distributed to the members, not in accordance with their share holdings or their investments, if you want to consider them as having an investment in a particular co-operative, but in accordance with the patronage that they have provided the co-operative in the course of that particular period.

MR. LAMONT: It is a rather long question. I will start off by first dealing with your question of investment. Back in 1924 to 1928 the Pools deducted two cents a bushel on the grain delivered by their members. When I speak of the Association, I am talking of the old, original pool which no longer operates in the case of any of the three provinces.

They deducted two cents a bushel for elevator repairs, and 1% of the selling price of the grain for commercial reserves. That 1% amounted to 1.66 cents per bushel, making a total of 3.66 cents a bushel. The Pools undertook they would pay interest at the rate of 6%

H5 on the elevator reserve and 5% in the case of commercial reserve. If this Commiss' ill refer to the first and second annual reports of t Saskatchewan Wheat Pool they will see it is clearly set forth this money is being deducted and it was a form of investment for the farmer on which he knew he would get 6% in the one case and 5% in the other.

That undertaking to pay interest was carried out until about 1929 when they got into financial difficulties and discontinued it for a number of years except when a farmer in Saskatchewan brought court action against the Saskatchewan Wheat Pool and the courts handed down a ruling and for one or two years the Saskatchewan Wheat Pool paid 3%, so there is a definite investment angle in the Pool which you refer to there.

I/MR/dpw

Now, on the question of returns, patronage returns, you refer to the voting rights. They have certain voting rights. They have the right to elect a delegate who is more or less - you might call him in the category of a director of a corporation.

They each, in the country, elect delegates who go into the annual meeting and run the affairs of the company - at least they direct. On top of that, again, the delegates elect a director, so this one vote is a long way off.

Now, on the question of the distribution, you will see we have questions there. On the question of this patronage dividend - now, the man who put up money back in the 1923/24 period is down pretty much to a forgotten soul. He may have got part of his money back. For a time the Saskatchewan Pool, I think, started buying in these deductions at 50 cents on the dollar and gradually moved up to 100 cents on the dollar.

As to what proportion those old resources are redeemed, I have no way of knowing and then they were evolving these funds so that the man who put up the money is not necessarily - they don't pay any interest now on that money.

Supposing a man is farming today: he has got all this money in there. He can't be delivering grain; may have a crop failure this year, but his grain is still in the storage in the elevator earning money for him next year.

The man who delivered the actual grain, the money is earned at a storage so that he may not be getting

I2 the earnings on the patronage that he gave it.

MR. STEWART: I think what you are basically saying, Mr. Lamont, on this question of investment is that members of any particular co-operative will have varying amounts to their credit with that particular co-operative; those amounts being represented in different ways, and I do not dispute them, but is it not a fact that so far as the earnings of a particular period are concerned the distribution is made not in accordance with those relative amounts standing to members' credits, what you may call a relative investment of the members in the particular pool, but distribution is made in accordance with the patronage given by particular members to the pool in that particular period.

MR. LAMONT: Depending on how much grain a farmer delivers this year he would get the earnings of that particular year, but those earnings may not come from the grain delivered in that particular year. It does not necessarily come from grain. It might be from the printing operations or their rentals from buildings or from the multiplicity of operations in which they engage.

MR. STEWART: But keeping the matter as simple as we can, subject to these qualifications that you mentioned, the basic distribution of patronage dividends in respect to a particular year is to the customers in that year in proportion to their custom rather than to the members in accordance with their investment?

MR. LAMONT: That is so, but the earnings may not have come from the deliveries of that particular year

I3 entirely. It is not necessarily a distribution of their particular grain. It's the distribution of the pool, the earnings of the operation, and in the storage of grain from previous years.

MR. STEWART: Is the basic distinction between the line companies on the one hand, and these four co-operatives on the other, this: that the ultimate beneficiaries of the operations of the line companies are their shareholders in accordance with the numbers of shares held?

Whereas, in the case of the four co-operatives the ultimate beneficiaries are the customers of the co-operatives in proportion to their patronage?

MR. LAMONT: No, the ultimate beneficiary of the operation of line companies is the Government, 52%; and the shareholder, 48%, and in connection with the pools, 100%. No participation by the Government.

MR. STEWART: Leaving the Government out of it for the moment, Mr. Lamont - and I realize that the reason we are here is that the Government is very much in it - but accepting the rules as they are for the moment, and accepting the fact that the line companies are paying tax at the corporate rate, and that the co-operatives are paying, or are permitted to deduct, patronage dividends for tax purposes, the ultimate profit, the profit after taxes, of the line companies goes to its shareholders, in accordance with the number of shares held.

The ultimate profit, if there is such a thing, of the co-operatives, goes, for a particular year, to its customers, in accordance with the patronage; is that a

I41 fair statement?

MR. LAMONT: Yes, I would say it is a fair statement, but the investor in the private companies, if there is a surplus after tax, and that money is not required for working capital, expansion of the business, it would go to the shareholder.

MR. STEWART: Well, what I am really getting at, you see, is this: I realize that these line companies and the co-operatives may be, as you suggest, carrying on exactly the same type of business, and they may be performing identical functions, but are we not faced here with the very basic question which is: whether we have two quite distinct forms of economic association?

Let me explain why I put that question to you. What I have in the back of my mind in this connection is, that if there are two distinct types of economic association, the line company on the one hand, and the co-operative on the other, perhaps this is a point we are going to be talking about later on today, but should the tax rules which are applicable to the one form be the same as those which are applicable to the other?

I know what you are going to say to that ultimate question. I am well aware of what you are going to say, but neither defending nor attacking them, let us assume these rules are in effect. What are your views on that question; whether these are two quite separate and distinct types of economic association?

MR. LAMONT: I do not see that they are really any different. That is, in the one case a group of investors have got together, pooled their resources, and they

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provide a service for the farmer.

In the other case, a farmer investor group gets together, and builds a series of elevators, engages in business generally, and from the pooling of his money he makes a profit, or he suffers a loss.

Now, if you get into an agency co-operative, you are talking about a different thing. I am talking about a group of farmers who get into a commercial venture, and this is a commercial venture.

MR. STEWART: We are talking about these four.

MR. LAMONT: They are definitely a commercial venture in every sense of the word.

THE CHAIRMAN: Mr. Stewart, is this a good point to break?

MR. LAMONT: On that point, they earn a profit or suffer a loss at the end of the year. Any accountant can figure out, regardless of what they want to call it, whether excess charges or anything else - they can figure out whether they have got a profit or a loss, and it is a very simple thing for the Income Tax Department to say what the tax should be.

MR. STEWART: So that you say that the members of a co-operative are entrepreneurs in the same sense as a joint stock company?

MR. LAMONT: They are a group of investors who happen to be engaged in agriculture.

THE CHAIRMAN: We will stand over until 2.15.

--- Luncheon adjournment.

R/dpw

--- On resuming at 2.15 p.m.

THE CHAIRMAN: If you have got nothing to say on this point, Mr. Secretary, I think we will ask Mr. Stewart to continue his examination. Are you people all ready?

MR. HANSARD: Yes, sir. I wonder, before Mr. Stewart begins, if I may file this? On page 6 of our brief, in paragraph 2.1, reference is made to our filing a specimen copy of the agreement that is signed between all the grain handling companies and the Canadian Wheat Board, and we said we would file a copy of that and tender it as an exhibit.

I have such a specimen copy. I wonder if this would be a good time to tender it so your record will be complete?

THE CHAIRMAN: Thank you. Is that not what we have as Exhibit A at the back of the brief?

MR. HANSARD: Yes. This can be the formal copy, then.

--- EXHIBIT NO. 191: Formal copy of specimen agreement.

MR. STEWART: Mr. Lamont, to continue with our discussion, I observe that in one or two places in this brief of your Association you use the expression "bona fide co-operative." I wonder if you could tell the Commission what you mean by that expression and how you distinguish between bona fide co-operatives on the one hand and other co-operatives on the other?

MR. LAMONT: Well, Mr. Chairman, I would say

that the parent organizations of the Manitoba, Saskatchewan and Alberta Wheat Pool elevator companies, as they originally operated from their formation in 1923/24, until 1929 and partially into 1931, that they were a true type of co-operatives in the way that they accepted the produce of their members. That is wheat only at that time.

They sold it, they delivered the proceeds of sales, less selling expenses. They did make these deductions which I mentioned this morning: elevator reserves and the commercial reserves, and with those reserves they invested that money in elevators.

Now, it is rather interesting to note that when they set up these elevator companies, you will find, in referring to the financial statement of the Saskatchewan Wheat Pool, that the elevator companies that they set up originally did pay income tax.

Now, in Alberta, there was a different situation that existed there. You had the option of paying, for instance, a provincial income tax, paying either the provincial tax or you paid a per elevator tax; $50 an elevator, whichever was the greater. The Saskatchewan Co-operative Elevator Company which operated in Saskatchewan from 1911 until it was absorbed by the Saskatchewan Wheat Pool in 1926 paid income tax on exactly the same basis as any ordinary corporation.

United Grain Growers, up until the amendment to the Act in 1946, paid full income tax. They were one of the main complainants against this favoured situation that the pool got itself into after the passage of Section 4P in 1930. Now, how the pools did get under 4P we

AA3 contend - the United Grain Growers contend - were in there improperly. Our contention was upheld by the Department of Justice and they were assessed and the case was to come before the courts at the time of the appointment of the Royal Commission so that when I say the pool as originally constituted, that is the Saskatchewan Co-operative Wheat Producers Limited, the Alberta Co-operative Wheat Producers Limited, the Manitoba Co-operative Wheat Producers Limited, which went into bankruptcy finally, and, I believe, is still in bankruptcy. I never heard of it being taken out.

Those three organizations were, I think, true co-operatives in that they accepted in this case the wheat. They sold the wheat. They returned the proceeds of sale less selling expenses but they set up these commercial organizations which we are discussing today.

Now, there may be other true agency co-operatives. It is pretty hard to put your finger on them because they get into investing money and making a return on the investment so that I would find it hard to find a true agency type of co-operative today.

MR. STEWART: Then, Mr. Lamont, your distinction appears to be on the basis of function performed by the co-operative.

MR. LAMONT: Function performed and the form of earning income.

MR. STEWART: Let me ask you about a number of other criteria, so that I can ascertain whether or not these are material to you in connection with this overall question as to what is a bona fide co-operative and what

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is not.

I take it, from what you have said about the pools that the fact that an association of this nature is incorporated does not prevent it from being a bona fide co-operative?

MR. LAMONT: You could have a bona fide co-operative if it carried on business in a manner in which it did not earn income or suffer a loss.

MR. STEWART: So the fact of incorporation is not ---

MR. LAMONT: I don't think it has a thing to do with it, whether it is incorporated or unincorporated.

MR. STEWART: I take it because you are prepared to recognize the pools as they existed in the earlier days, the number of members is not material?

MR. LAMONT: No. You could have a million or could have ten. I don't think that has got a thing to do with it except from a political standpoint.

MR. STEWART: The size of the operation is not material, then?

MR. LAMONT: No.

MR. STEWART: The fact that there is more than one type of operation may not be material?

MR. LAMONT: Well, you are getting into a little different ground there. If you had a co-operative that - if a group of farmers decided to bring in a carload of potatoes, and they appointed somebody to look after the potatoes for them, and paid the cost of the potatoes and paid his expenses for looking after them, and if there were a few dollars left over after you got the car of

A5 potatoes distributed, that is an agency type of co-operative and there is no return.

Once you get into a set-up such as we have down here, a supermarket that has thousands of types of goods in the store, and you pool all the buying and selling of all those goods, and then return patronage dividends, what you are doing is returning a profit on an overall trading operation, whether you call it a co-operative or anything else, or whether her hair is red, white or black; regardless of ownership, I don't think it makes a bit of difference.

MR. STEWART: Are you suggesting that the only bona fide co-operative is an agency co-operative in the strict sense?

MR. LAMONT: Once a co-operative gets into the use of capital, then it moves itself into another category.

MR. STEWART: You mean once it acquires capital of its own?

MR. LAMONT: Yes. After all, supposing you are selling apples, and you get into the processing of apples and you acquire a great deal of capital: you are using that money for working capital. That is, there is some return on that capital.

MR. STEWART: Then, let me ask you this: is it a fact that the co-operative deals, or you deal with non-members as well as members; is that material?

MR. LAMONT: I don't think it matters whether they deal with members or non-members. What we are looking at is the profit.

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THE CHAIRMAN: Mr. Stewart, I didn't hear the last reply. What you are looking at --?

MR. STEWART: Profit.

MR. LAMONT: Profit, whether from a member or non-member. The Act, as you know, at the present time differentiates between member and non-member but in the payment of patronage dividends you don't have to be a member of an organization. A private company can advertise intent to pay patronage dividends and pay it to their customers. They are not necessarily members.

MR. STEWART: Does that come down to this, in your opinion?

MR. LAMONT: There is one point: when they start with non-members, why are they dealing with non-members other than to make a profit?

MR. STEWART: Mr. Lamont, I am in the position of asking questions rather than answering them. Do I take it, at some stage in the operations of what starts out as a bona fide co-operative you would expect it could happen that the organizations get to the point where there is a profit of the Association as opposed to a profit of the particular members and at that point, in your opinion, the co-operative ceases to be bona fide?

MR. LAMONT: I am not clear on what you are asking.

MR. STEWART: Let me rephrase it. You say this: at the stage where the Association earns a profit that it ceases to be bona fide?

MR. LAMONT: No, they are in a different position. Once they get into commercial operations, buying

BB2 and selling of goods - not merely acting as selling agent or buying agent for their members, but in the ordinary commercial operations they are going to make a profit or suffer a loss.

MR. STEWART: Let us confine this for the moment to grain marketing or grain handling co-operatives, whichever expression you would like to use. You told me it doesn't matter if they have a million members, they are still bona fide co-operatives. Let us suppose we have two and each have a million members. You might conclude that one is bona fide and one isn't. What is the essential difference between the two, in your mind?

MR. LAMONT: The pools started out - first, the compact wheat pools started out with over 100,000 members in the three provinces. They accepted the wheat of their members and returned the proceeds on sales less carrying expenses. It didn't matter whether they had 50 members or 100,000 members. They accepted the grain; they sold it and returned proceeds of sale.

They didn't have any handling facilities. All they had was a bank account. They are selling agents employing men to sell.

MR. STEWART: As soon as they provided their members with addition services such as storage did they cease to be bona fide, in your opinion?

MR. LAMONT: The parent organization may have been a bona fide one, but the operating organizations they were commercial undertakings. They owned assets, earned money on the assets. They were a trade organization; bought and sold grain. They stored grain and entered into

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a multiplicity of other things; milling of flour, grinding of seeds, oilseed plant, publishing and printing business. They pool all these earnings and if they have a loss, what would happen there? I know the answer. I don't have to have an answer. It would have to carry over to the next year to pick up the loss. It would have to be the members of the next year, the next year or some future year's business.

MR. STEWART:

Take the wheat pools in connection with their current operation as regards rye, where they, as I understand it, are still performing pooling functions. As regards that aspect of their activities are they bona fide co-operatives?

MR. LAMONT: I don't think there is a pool in rye, but some of the companies have a pool in rapeseed.

MR. STEWART: All right.

MR. LAMONT: The rapeseed - that is merely, you set up some men in your office to handle that rapeseed pool. You get a handling charge on the rapeseed; you get your expenses, and that goes into the overall earnings, into your elevator earnings. The mere operation of the pool - for instance, we and several of the line companies together operate a pool. We carry that on at cost and return the profits of sale.

There is nothing left at the end and certainly there is nothing to tax, but we do hope to get something out of the handling and the storing of the rapeseed.

MR. STEWART: Well, now, Mr. Lamont, it does seem to me the basic ground of distinction between bona fide co-operatives and other co-operatives comes down to

BB4 the complexity or multiplicity of the operations which these co-operatives are carrying on.

MR. LAMONT: If you have a pure agency where you don't get involved in the ownership of properties and the earning of money on investments, which is thrown into the pool - if you stay away from that, if you merely accept goods of your members, return the proceeds of sale less your handling expenses, there can be no profit and nothing is taxable.

MR. STEWART: Let me put this to you: in the early days of what has become, in the present day, the joint stock company, two or three individuals bound themselves together to engage in a joint venture. Ultimately, in different countries they were permitted to do this in a corporate form. These early companies carried on their operations in what we today refer to as a pretty primitive manner. Their operations weren't complex. They weren't engaged in multifarious types of business, but the form of corporations which evolved in England and elsewhere gradually grew. It turned out to be well-adjusted to the development of the modern state, commercial activity of our modern civilization with the result that that type of corporation with relatively minor changes in character evolved into the Gargantuan corporations we have today: General Motors, General Electric and so on, and now, in essence, the nature of General Motors is no different from the nature of the corporation which you and I might form to carry on some very minor type of activity.

MR. LAMONT: Or the wheat pools.

MR. STEWART: Now, what I am wondering about is

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how the nature, the fundamental nature, of the co-operative changes merely because, instead of carrying on one particular activity on behalf of its members - namely, in the case of the grain co-operatives, the marketing of wheat - they now indulge or engage in a great many different types of activities; they store grain and they do the other type of things you refer to in the brief. Has this changed their fundamental nature?

MR. LAMONT: They changed their nature. It is a central - the weavers of England - they may have been a co-operative. I don't know. It was before my time. The co-operatives themselves have changed their nature. They have adopted the General Motors principle of operation, but for some reason they want freedom from income tax. They don't seek freedom from municipal tax or business tax; they pay all those.

At one stage they paid income tax, but they got to the taxation authority, and they have got able managers and accountants and they do their best to avoid the payment of income tax. They themselves have changed. I am not trying to change the set-up and construction of the co-operative. They are the people who set up the change.

MR. STEWART: Mr. Lamont, you indicated - and I wonder whether you would consider this yourself, and I think it is the law of the land, and I am not talking about tax law: that co-operatives may be incorporated. You conceded, in any event, that the mere fact of incorporation doesn't change the fundamental nature.

MR. LAMONT: Are they earning a profit?

MR. STEWART: You indicated there was nothing

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to prevent a bona fide co-operative being incorporated, I think.

MR. LAMONT: Yes.

MR. STEWART: Some of them have incorporated themselves, and the mere fact of incorporation on that basis doesn't change their basic nature. That is why, before lunch, I attempted to define with you the general nature of the co-operatives. I attempted to get your views on the question of whether there are two fundamental types of economic associations, because if there are, I think there is a very real question.

I suggest to you there is a very real question whether the nature of the association which is the co-operative changes merely because it grows in the size and complexity of its operation.

MR. HANSARD: Perhaps I might get into this. It seems to me Mr. Stewart is trying to discuss sort of a combined legal question with Mr. Lamont. Surely to goodness, if there is a separate corporate entity, there has to be incorporation? There has to be a separate entity in order to be a taxable entity.

There are two questions. One: does that entity have income and if it does then I think this is our submission; that it should be taxed on that earning. There has to be an entity before there can be something that is taxable, but it does not matter as long as there is an entity what the form of the entity is as long as it identifiable and earning income that is subject to taxation, and merely because you call it a co-operative, if, in fact, it is earning, we say it has ceased to be a

BB7 co-operative because the very essence of co-operation, as we understand it, is that they don't earn income, and that is the whole thesis upon which they say they shouldn't pay taxes.

Whether or not it is set up in one form or another as a separate entity and earning income, then I 2 think it is our thesis that it should pay taxes on the same basis as other entities with whom it is competing.

THE CHAIRMAN: I might interrupt here. Mr. Hansard, I think, has changed the course of what I was following, but if he is correct in what he says and has the support of Mr. Lamont it seems to me, perhaps, that ends the discussion. The co-operative ceases to be a bona fide co-operative, as you said, Mr. Hansard, if it earns profit. That is not what I got from Mr. Lamont.

MR. HANSARD: I am sorry. I may be wrong.

THE CHAIRMAN: Is that your view, Mr. Lamont? Does it cease to be a co-operative when it earns a profit?

MR. LAMONT: The co-operative is a strange organization in many ways; it varies. It is a huge commercial undertaking, that we compete with, classing itself as a co-operative. I understand that you have to be registered in order to be able to call yourself a co-operative. There are many different kinds of co-operatives.

I don't care who wants to call themselves a co-operative so long as if he is earning a profit he pays his share of the tax load. They can call themselves anything they like.

MR. STEWART: Now, Mr. Lamont, I think it may

be unprofitable to discuss this particular question any further at this particular time. In any event, if we have a co-operative which is a bona fide co-operative within your meaning of the term do you conceded that the present tax rules are not inequitable?

MR. LAMONT: If you have a mutual concern, what is called a co-operative or mutual, or anything else that has no profit, that returns the proceeds of sale, but once it starts distributing income before taxation, then I argue it has income.

As I say, the original concept of wheat pools: they accepted wheat from their members; they returned the proceeds on sale less selling expenses and there could be no profit. I will go that far as to concede there is no profit there.

Once they got into the subsidiary operations and invested their members' money which they deducted from the proceeds of sale of wheat - as a matter of fact it was so confusing that the Income Tax Department at that time attempted to assess the pools in that connection. That is the money the pools were getting, the 3.66 cents a bushel.

They took action against the Saskatchewan Wheat Pool - I think quite improperly and with complete misunderstanding of the operation. What they should have followed through was the earning of income on the 3.66 cents a bushel which amounted to $30 million which, added to the 2 cents for those so-called various operations, $20 million - they got $50 million of capital invested plus reinvestment of earnings. They have got assets, probably, in the

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neighbourhood of $200 million on which they are earning income on which they should pay taxes.

MR. STEWART: Well, now, let us proceed, Mr. Lamont, for a moment, to a discussion of the question of the deductibility of patronage dividends, because as I read your brief, this is your primary cause for concern at the moment.

Again, I would like to give an example and ask you to comment on it. My understanding of the co-opera- approach to this particular question, as I understand it, they consider that there is an essential difference between the dividend on share capital in ordinary commercial corporations and the patronage dividends paid by the co-operatives.

HR/dpw

The difference is, as I understand it, something like this: a dividend paid by an ordinary commercial corporation is a distribution to the owners of the share capital of that corporation of part of its residual profits.

Now, the co-operatives may go so far as to say that a patronage dividend of a co-operative is also a distribution of a residual profit to its customers. If they go that far, they then proceed to say that that distribution is made in accordance with patronage, and therefore, in essence is a price rebate to the customers of the co-operative, which is just as deductible as any price concession which may be made by an ordinary commercial corporation to its customers.

That, broadly, is my understanding of the co-operatives' position as regards the distinction between divdends of commercial corporations and patronage dividends of co-operatives and I wonder if you would care to comment on that?

MR. LAMONT: In the first place, we have no objection to anybody paying patronage dividends. What we say is - and we are dealing, in this case, with our competitors, the pools - their earnings do not necessarily come from the grain which is delivered in that year. They have grain in stores; some of the grain might be in stores in their elevators six or seven years. In the meantime, the man who delivered that grain into the elevators may be dead and gone, or left the farm, or may have had a crop failure and delivered no grain in the current year. The earnings on that grain go on.

They put up a very fine office building. I

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trust you had an opportunity of seeing it when you were in Calgary. It cost $3 million. Half of it is rented out to customers of various kinds.

They have working capital in the neighbourhood of over $20 million which enables them to buy and store grain in their own right. They have put up thousands of elevators. They put these huge terminal elevators up, all money invested; they are in the printing and publishing business. They earn the money from a multiplicity of operations.

Now, I would say that they should first pay the same as other companies pay; income tax on those earnings. Then, after that, if they want to distribute the residual in patronage dividends, or any other way, well and good, but you see they have that first, the $50 million of their members' money and they pay no interest on it and there is nc maturity date to it. They have got that capital and instead of paying it in one form, they pay it in another; pay it as patronage dividends rather than as interest.

MR. STEWART: Have you had an opportunity of reading the brief which was filed with this Commission on behalf of the Alberta Wheat Pool?

MR. LAMONT: No. I have received a copy of it but I have not had an opportunity of reading it. I saw a newspaper report on it.

MR. STEWART: So I would like to, again, state my understanding of the position which is taken in the brief on this particular point. They say - again, as I understand it, and I have not discussed this with the

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Alberta Wheat Pool and I may be mistaken in their position but as I understand it they say this: it may well be that the income of the Alberta Wheat Pool - and I suppose if it is true of them, it may be true of the other co-operatives - contains two elements: one is a return on capital and the other is properly to be regarded as a price rebate to its customers.

Now, they indicate that it would be extremely difficult to divide that income between these two elements but it may be that what they are suggesting is that it would be reasonable for tax purposes to assume that one of these co-operatives has a certain capital employed for tax purposes which should be deemed to earn a particular return. That is as regards that part of its income it is taxable and as regards the balance, it is distributed by way of patronage dividends and that should still be treated as a price rebate and, therefore, not taxable. Could you comment on that?

MR. LAMONT: I don't know whether in the course of your examination of the manager of the Alberta Wheat Pool you had an opportunity of discussing with him the source of earnings. I think if you had, he would have told you, "Well, some of our elevators make money, and some of our elevators lose money."

An elevator that is in a poor crop district, in a hailed-out district, in an over-built area - that elevator might lose money.

A few miles off, the area may not be over-built, may be a very large handling at their elevator. That elevator might make a good profit. Now, here are two

CC4 farmers; one delivers to the profitable elevator and one delivers to the losing elevator, the elevator that actually loses money, but they both get the same patronage dividend.

MR. STEWART: Is this not simply a reflection of the fact that the size of this operation has become such that the risk is spread?

MR. LAMONT: It merely shows that it is an overall operation of the earning of money in their terminals; the earning of the money in storing grain; in their buying and selling of wheat, oats and barley, and a multiplicity of operations they carry on. Premium grain and conditioning grain in the terminals. It is an overall operation in which they make an overall profit or loss.

MR. STEWART: Let me put the question to you this way, Mr. Lamont: would you concede that if the co-operatives were taxed - I am talking about marketing co-operatives on the basis that their income consisted, in part, of a return on capital - that it would be reasonable to treat another part of their income as representing a deductible price rebate to their customers?

MR. LAMONT: What kind of a co-operative are you talking about?

MR. STEWART: I am talking about a marketing co-operative.

MR. LAMONT: Are you talking about a retail store?

MR. STEWART: No, a marketing co-operative. Let's take, for example, one of the wheat pools.

MR. LAMONT: They are no longer marketing

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co-operatives. These wheat pools ceased to exist in 1931.

MR. STEWART: I accept that.

MR. LAMONT: They ceased to carry on business.

MR. STEWART: It is an unfortunate use of words on my part. Let's take one of the pools.

MR. LAMONT: Do you mean the so-called wheat pools or pool elevator companies or what?

MR. STEWART: Yes. Let's take the Manitoba pool or the Saskatchewan pool or the Alberta pool. I put it to you - let's take the United Grain Growers. If these companies are now to be taxed on the basis that part of their income represented a return on capital employed in the business and on the basis that the balance of their income represented a price rebate to their customers, which was deductible, what would your reaction be to that?

MR. LAMONT: Well, I think the question is based on the lack of understanding of the business as is carried on.

MR. STEWART: I am afraid that may be so.

MR. LAMONT: They don't market the produce to their members. They merely handle this grain and they carry on these various other operations, ordinary commercial undertakings, exactly the same as our own; carry it on in precisely the same manner, and it's all earning of income, and the whole thing is to be taxed. You can't segregate part of it.

MR. STEWART: That is your answer to the question. I don't think my question is related to the nature

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of their operation. I think my question related to their income. If it did not - let me put it to you this way: let us assume that one of these four companies has income in a particular year. Let us assume that in one way or another we determine that that company has a certain amount of capital employed in its business and that for tax purposes the income is segregated into two parts; one of which is taxable and the other is treated as representing a price rebate to its suppliers, if it is a pool.

What is your reaction to that type of proposal?

MR. LAMONT: In the first place, this is not a price rebate. It's a distribution of profits they carry on.

MR. STEWART: I take it that is your point, that in the manner in which these companies operate there is not, in fact, a price rebate.

MR. LAMONT: It's a distribution of profits.

MR. STEWART: So that again do we not come back to the basic question of what is the nature of this type of association?

MR. LAMONT: Just on that last question, Mr. McKitcham has a point I think he wants to express on the matter of price rebates.

MR. McKITCHAM: Mr. Stewart, my understanding of the distinction between a price rebate and a patronage dividend, as paid by a co-operative, is this: a price rebate is paid to somebody whose economic interest is diverse from your own. That is to say, it is a refund given by a seller of merchandise in the hope or expectation that this refund will encourage the customer to do

CC7 business with him in the future, or will in other ways build up his good will.

On the other hand, a patronage dividend when paid
2 by a co-operative represents a division of part of the profit earned by the investment which the members have made in that co-operative over the years, and I think it is also a point that in some situations patronage dividend is not only a patronage dividend paid in relation to the business done by the co-operative, it also, in fact, is a patronage dividend paid in proportion to the member's investment.

This arises by coincidence, not by design, but it arises because of the practice of co-operatives of paying part of their patronage dividend by way of dividend credits, and so on, so that payment over a long period of years, not looking at any one year, but over a long period of years in the case of the three pools, for instance, the patronage dividend which a member receives will also, coincidentally, represent a return proportionate to the amount which they have invested in the enterprise.

It seems to me a singularly inappropriate manner for levying a tax on any organization simply because of the manner in which it chooses to distribute its income, particularly so when, in some cases, the manner may, at the end of this long period of years, be similar or even identical.

MR. STEWART: Is it not contended on behalf of the co-operatives, in any case, that this suggestion that you can only grant price rebates to people who are diverse in interest is unsound, but that, in any event, the

CC3 relations between a member of a co-operative and the co-operative are of two types, with the same person dealing with the co-operative in two capacities. He is, first, a member. Secondly, a customer, and that in his capacity as customer he is dealing with the co-operative on an arm's length basis as any customer of one of the line companies will be dealing with it.

MR. McKITCHAM: I don't see how you can accept this position when you appreciate that that customer has a large investment in the co-operative.

MR. STEWART: He may or may not have a large investment. He may be a new member who has no investment.

MR. McKITCHAM: No; taking it in any one year this may be the case, but when you take it over a long period of time, in many cases his investment is proportionate to the amount of business he performs with the co-operative.

MR. STEWART: I think it is perhaps unnecessary, but I should make the point that I cannot accept any particular proposition. I am trying to explore this whole question, which is a very interesting and difficult question.

MR. HANSARD: One of the curious things that struck me when I was investigating this, is Section 75, which is captioned patronage dividends, nowhere makes use of the expression "patronage dividend" at all, and I think a lot of the difficulty that arises in this matter is in using the expression "patronage dividend" to describe something that is only a patronage payment.

Now, patronage dividend should mean, and originally

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did mean that you are dividing up in accordance with patronage the result of the operation, but here when you are making a payment in accordance with patronage it may not be a price rebate, unless it is a rebate of a customer's price, and the price has to relate to the particular transaction and, as I say, you don't get a price rebate unless you are handing back to the man a part of the price he has paid but this is not the case, as I understand it, in respect to patronage payments which are being claimed as patronage dividends, wrongly so called, I suggest, for deducting.

MR. STEWART: May it not, Mr. Hansard, be simply a reflection of the difficulty of dealing with allocation in respect to patronage when you have the large number of members and the large number of transactions that are involved here?

MR. HANSARD: No, I don't think the number of transactions or the number of members has anything to do with it. I think where this difficulty arises is when the McDougall Royal Commission, when there were complaints about tax discrimination at that time, I don't know whether this is a particularly apt expression, but they felt that the proposition was, "Let's let everybody pay patronage dividends and then nobody will complain," but the point is that the draughtsmen of Section 75, which is the legislation that was put into implement their thinking, saw that you could not talk about patronage dividends where you were going to make the patronage dividend payable not in proportion to business done by members, but in proportion to business done by customers.

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Now, they take customers because to bring everybody into this thing - the ordinary business people did not have members; they were dealing with customers, so they made it all customers, and once they did that, it ceased to be a requirement that the patronage dividend was a divying up of what was left over after the particular pooling operations. It ceased to be that.

It was merely a payment of what was left over after the operation, not to the members as such, but to customers. It so happens that the wheat pools deal not exclusively, but almost exclusively with members. Therefore, when they make payments, the money goes back to the members and he doesn't care how he gets it, but the ordinary business, when he makes patronage payments, it is, in fact, handing money back to his customers so the ordinary businessman may be making a rebate, but the other man is not because it is going back to the people who own it.

THE CHAIRMAN: What do you mean by the ordinary business?

MR. HANSARD: I am talking about the ordinary joint stock company that we speak for.

MR. STEWART: While we are discussing Section 75, could I perhaps direct your attention to page 32 of your brief, because the first sentence on that page is one which I am not sure I understand. It reads this way:

"Accordingly, while a true patronage dividend, genuinely paid by a bona fide co-operative, would no doubt fall under Section 75, payments or allocations

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under that section to qualify for tax deduction are by no means the necessary equivalent of patronage dividends."

Now, is the explanation the one you have just made?

MR. HANSARD: I think that is what this is intended to be. In other words, we draw the distinction between patronage payments under Section 75. They don't have to be dividends; they have to be made in accordance with patronage, but they are made to a customer and you don't give dividends to customers.

DD/PB/dpw

I can see this little confusion when you read it the second time. I think, perhaps, if this is taken in connection with what precedes it on page 31 it is clearer. My point is made right there at point two.

MR. STEWART: Yes, but on page 31 you say that payment was not now made to members, but to customers whether members or not and the amount of the fund was to depend on the whim of the taxpayer. You say further down on page 32 in the second sentence of paragraph 6.3:

> "To the extent that they are paid, they are exactly the same as the payment of dividends by ordinary joint stock companies made in the discretion and at the will of the Board of Directors and out of the general funds of the corporation derived from its overall operations, including the numerous subsidiary commercial undertakings having nothing to do with the original purpose for which the members banded together to co-operate."

Just dealing with that last sentence and the last part of page 31 for the moment, again, it seems to me you are arguing on two different points; the first is, it is a different type of economic association, and, secondly, is a patronage dividend so called ever wholly or in part in the nature of a rebate?

MR. HANSARD: The first thing I would say about that is, I suggest that you can't possibly, in the way that patronage payments are made, say that any of the payments are related to particular transactions. I think

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price rebate must be a rebate in respect of a sale. Price is a consideration for sale and a rebate is a return on part of the price.

MR. STEWART: Could I interrup for just a moment? The rules of this particular type of economic association are that the rebate will be related to the total amount of business handled on behalf of a particular member in the couse of a given period; is that the answer?

MR. HANSARD: I suggest it isn't because they are not returning the net result of the total amount of business handled to him during the period at all. You are returning to him something that has been earned in respect of that business and the business that everybody else - an interest on other business done on the side, and all lumped into a pot and what they decided to pay. They don't exactly pay out everything they earned; on the contrary. They don't pay out everything they earn. They decide how much they declare and allocate patronage dividends, so called, but not necessarily turn over everything they get, far from it. Some of it is paid in cash. Some may be paid out in the equivalent of cash. Some may be in exigible form and some is merely used in the notional section to create some sort of revolving fund.

While it might eventually get to the member it doesn't get to the member in any measurable time and in the meantime they have that for purposes of capital and they use it.

MR. STEWART: And they, if I may say so - I think what you have said is very helpful, but I think the nature

DD3 of the payment is one thing and the manner in which it is made is another; two different things.

MR. HANSARD: That is probably true. I don't think the nature of the organization has any bearing on it. Once you have an entity - and I don't care how it is incorporated - once you have an entity dealing through its members and that entity is engaged in business, our suggestion is that entity should pay taxes on that income and I don't think it makes one little bit of difference how they are organized, if that is what, infact, they are doing, and that is what we say it is.

MR. McKITCHAM: If I could add something: I feel that if it were the co-operative which performed the function of the Canadian Wheat Board and at the same time owned the assets, and if, after the end of the year's trading, this was a product payment to the people who delivered the grain to them, then, in that payment there might be the element of price for the grain which they purchased from the people who delivered to them, and there might also be - and there probably would be - an element of profit on the operation of its physical assets, and in that circumstance I feel there might be a justification for the patronage dividend.

In point of fact, I think co-operatives falling within this category today are negligible. I can't think of any offhand. Secondly, it is the power of the co-operative to determine and to segregate which element of its patronage dividends is which by the expedient of adjusting its prices at the point of purchase in the case of the marketing co-operative.

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MR. STEWART: Let me go back to page 32 for a moment, to the last sentence of Section 3.6. You say there, and I quote:

"To the extent that they are not paid, but retained on investment terms, they represent, from a practical point of view, no more nor less than the transfer of surplus income to capital account."

That is the end of the quotation. I would like to be sure that I follow that because I understand the theory of the payment of these patronage dividends that are treated as deductible by paying co-operatives, they are taxed in the hands of the member recipient. However, some of the amount involved may, as you have indicated in your brief, be paid not by way of cash but through issuance of paper or credit of the amount to the member on some other type of basis.

No matter how it is done, let me deal with what you call in your brief notional payments, which is not a payment in cash. Having regard to the fact that it is treated for tax purposes as having been distributed to the member, he pays tax on it to the extent that he is taxable. Is it correct to say that this is nothing more nor less than transfer of surplus income to capital account?

MR. HANSARD: I think you have to read the whole sentence:

"To the extent that they are not paid, but retained..."

DD5 They retain revolving funds and if they eventually have to pay it in the sense of being disbursed, then the situation changes, but in the meantime - it may be a long, long number of years - the money is there to be used in the business.

MR. STEWART: Is it there in the surplus account or in the form of liability to members?

MR. HANSARD: It is there for use whether it is capital or income. I don't care. It is there and it is used.

MR. LAMONT: There is a difference in different co-operatives. United Grain Growers, for instance, I believe they have a rate and there is principal and interest for a period of 15 years, but with the three pools, there is neither a maturity date nor any provision for payment of interest. You can go on till doomsday as far as the member is concerned before he might get it. As long as the corporation wants to retain and by corporation I mean co-operative, as long as they wish to retain it and will retain it and do retain it without interest, without maturity date - what more can you have than that?

MR. STEWART: It may be I have misunderstood this expression "capital account" here. Taking, as you suggest, the example of United Grain Growers, when they issue debentures ---

MR. LAMONT: What we say from a practical point of view - we don't say it is transferred from one account to the capital account. We say, from a practical point of view, and that is exactly what I am saying; if you have money: money you don't have to pay interest on and

DD6 you don't have to return at any particular time; it is just about as good as capital money.

THE CHAIRMAN: Before you move to the next point this is an interesting thesis Mr. Hansard has advanced to the effect one should have regard to the identification of the transaction. I quite frankly don't follow it. I was wondering if you were coming back to explore it. In the case of a producer it would be a premium increase in the price, and in the case of the consumer co-operative it would be a reduction in price.

I can't follow why Mr. Hansard suggests that it is necessary for it to be associated with the transaction in order to become an adjustment of the amount of the transaction. The law seems to me to take care of that.

MR. HANSARD: I suggest, Mr. Chairman, when they are justifying the non-payment of tax in respect of that - because it is, in fact, a price rebate - I am saying it is not a price rebate because it is not going in respect of the transaction, but it is going in respect of custom and it is mixed up with a whole mass of other things, and I say that it is identifiable in no way, shape or form.

THE CHAIRMAN: Perhaps so. You, as a lawyer, know it doesn't require identification and you are saying that to a court of law one must identify - you are saying, in order to really achieve what is intended in the law in the whole concept of this matter you should be able to go to the transaction.

2 MR. HANSARD: I am supposed to know about law. There are vast fields where none of us know at all.

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What I would like to say, Mr. Chairman, when you attempt to justify a course of action on the basis of price rebate when it isn't a tax rebate, I say you don't justify it. That is what I am really saying.

THE CHAIRMAN: I am asking why it should be a price rebate.

MR. HANSARD: I didn't put "price rebate" forward. I think that was put forward in the Alberta brief, the Alberta Wheat Pool.

COMMISSIONER GRANT: I would like to come in here: it seems to me that this whole discussion is based upon the concept of law that an agent exists. If you can knock down or knock out the principle of an agent then you are on fairly sound ground so far as the law is concerned that there are assets which are owned by the corporate entity.

Therefore, the income tax will take care of the situation. The income tax - Section 75 of the Income Tax is now based upon the principle of law that an agency exists.

MR. HANSARD: I think it is based upon a lot of confusion, to tell you the honest truth, sir, but the agency must be an agency to do something and that is to represent them either in the marketing or purchasing of goods or services, and to do it at cost. That is the theory, agency theory, of co-operation. It is not just being an agent; it is being an agent for this specific purpose and carrying on in that way and if you do that then there are two arguments.

There is the argument because a man is an

DD8

agent it is merely being done by the principle because the co-operative agent is merely doing it for the member. That is one part.

The other argument is because the agent does it at cost there is no income, so you don't tax for income when there is no income. The other argument is, you are not doing it because it is really being done by your agent for you. Those are the two sides as I understand it.

Our thesis, in our brief, is based upon the proposition that Section 75 was enacted following the last Royal Commission dealing with co-operatives to endeavour to cure the situation, and it hasn't done it, and that is why we have suggested what we suggest. There is an awful lot of mystery behind that section.

MR. STEWART: Well, now, gentlemen, I would like to move away, if I may, from the question of the nature of the patronage dividends to the method of payment. Part of your concern set out in your brief arises from the fact that the co-operatives defer payment of patronage dividends to their members in one way and the other.

Now, assuming that under the contract of a co-operative deferment is proper; assuming that it has been approved by the membership at large, or whatever other way is provided in the legislation or in the charter or in the bylaws of the particular co-operative, is this not a feature of the organization of co-operatives which tax legislation may be entitled to recognize? For tax purposes, the members are treated as having received the whole amount of the dividend.

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Remember, I am not dealing with whether these patronage dividends should be deducted; I am dealing simply with the question of deferment. If it permits dividends based on patronage or permits payment to be deferred is there any reason why the law should penalize deferment as long as tax is being paid by the recipient?

MR. LAMONT: Well, Mr. Chairman, I think we have the answer back in the McDougall Royal Commission on Co-operatives. That is exactly the opposite to his recommendation. They recommended that patronage dividends should be allowed, must be paid in cash within six months; cash or its equivalent.

This deferment is not the desire of the members; it is the desire of the management, and if I was management of a co-op I would want it, too. It would assist me to grow; it would assist me to escape payment of taxes.

The co-operative is like the joint stock company. How many people attend the meeting of a corporation, even a large corporation? He is sort of looked at as an odd-ball if he goes to a corporate meeting and asks a question. I don't think 10% of the members of co-operatives take an active part in the actual affairs of the co-operatives. It is left largely to the few active members and to management.

They can get through any resolutions they want at the meeting. It is the same as you go to the golf club and you want to get something through. Nobody ever opposes anything. They may not like it, but they don't oppose it.

MR/dpw

MR. STEWART: Mr. Lamont, surely the same reasoning applies to joint stock companies. The number of companies whose dividend policy is determined by shareholders, as such; it's the management that decides dividends in joint stock companies, just as it is apparently in the case of a co-operative.

MR. LAMONT: And it's management that says - the Co-operative Union of Canada did go and they waited on the late Prime Minister Mr. Mackenzie King and Mr. Mackenzie King, without consulting his Cabinet in this case, and not realizing the scope of what he was doing, agreed with the Co-operative Union of Canada much to the surprise of the Minister of Finance. He agreed to this clause. It was nearly agreed to before the Committee. It was a six-six vote. I was there.

MR. STEWART: You are talking about something of which I have no familiarity.

MR. LAMONT: I happen to have. I think you will find that behind the action of the Co-operative Union of Canada were the three wheat pools. It doesn't mean anything to the rank and file of co-operatives. It does mean a great deal to these corporations of many millions and millions of dollars a year.

MR. STEWART: The point that I am raising, though, is if this deferment is perfectly legitimate under the co-operative form of organization, let's concede that maybe the members do not take the active interest in dividend policy that perhaps they should. I don't know whether they do or not, but if it is a perfectly legitimate method of proceeding, and the

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dividend policy is part of a premium by the members and if the legal formalities are observed, is it a fact that the payment is something to which the line companies could not properly object?

MR. McKITCHAM: I think the important point there is the fact that this is income which is not bearing tax at the heavy corporate rate. It is bearing tax at the very much smaller average personal rate, and this is where the advantage lies with the co-operatives, and it is not bearing double taxation.

MR. STEWART: I am trying to confine this at the moment to the question of the nature of payment. Let's suppose, for the moment, that co-operative income was subject to tax. In other words, that the submission you are making about Section 75 prevailed. Then the co-operatives continue to pay patronage dividend out of income which has now been taxed.

You could, presumably, have no objection to the fact that the members of the co-operative are prepared to take part of their dividend today and part of it in the form of dividends payable over 15 years?

MR. McKITCHAM: If you are of the opinion that the privilege of taking patronage dividends is unwarranted and an unjust provision, then I think anything which permits the extension of this privilege exaggerates the injustice and I think this is the position of the line companies. I think it is also unworthy in many countries. Patronage dividends are permitted to be deducted largely because of the importation of the United Kingdom system, where co-operatives had their origin, and in many

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EE3 c- -s the importation is taken into tax systems which are quite foreign to them. Ifyou are convinced that this is an injustice, then anything that enlarges the injustice and makes it even more artificial, I think, is unfair.

MR. STEWART: I am glad that you raised this question of taxation in other countries because I would like to refer you to a section of the Alberta Wheat Pool brief which deals with that very question, and I refer in particular to pages 24 to 34 of that brief in which they deal with the taxation of co-operatives in the United States, the United Kingdom and Sweden, and they summarize their representations on this particular point on pages 33 and 34 of their brief.

Now, Mr. Lamont has not had an opportunity of reading that brief.

MR. LAMONT: Mr. Chairman, Mr. McKitcham was up in Calgary at the time this brief was presented and he might wish to make some comment on that.

MR. STEWART: The questions that I was going to put, Mr. Chairman, are these: the Wheat Pool, I think, indicates, or suggests, that the rules in those countries with respect to the treatment of patronage dividend for tax purposes are essentially the same as they are in Canada and what I would be interested in learning from these gentlemen is whether in their opinion there are distinctions between the co-operative movement in Canada and these other countries which should be taken into account in assessing the significance of what the Alberta people say.

MR. McKITCHAM: I would like to answer that

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question in this way, Mr. Stewart: I think it must always be borne in mind that, first of all, in the United Kingdom where this whole question first arose, at the time when the legislation was enacted there was no profits tax in Great Britain so the income tax - and the income tax is only levied once on that part of the corporation income which was distributed to its members, so in point of fact it did not become tremendously significant whether tax was paid on this part of the corporation's income, either by the corporation or by the shareholders.

Then the question came to be decided: what ought to be done with that part of the co-operative income which was distributed by way of patronage dividend and the decision was made that so far as the initial entity, so far as the corporate entity was concerned it should be deducted.

Now, if the Government of Great Britain had then gone on to say that this income would be taxable in the hands of the members of the co-operative, there would have been no injustice between the corporate entity on the one hand, the joint stock companies on the one hand, and the co-operative on the other, but it did not do this and it is my submission that it did not do this because, first of all, patronage dividends were paid largely by consumer co-operatives in Great Britain, where there are very few marketing co-operatives. The great bulk there are consumer co-operatives.

As a result, these patronage dividends were extremely small in size and, secondly, they were paid to people who generally speaking were in the lower income

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groups and who were not liable to income tax anyway.

Under these circumstances it did not become important whether or not this income paid to members was taxed.

MR. STEWART: Are you in a position to comment on the position in the United States and Sweden?

MR. McKITCHAM: I would just like to develop this a little further. This being the case, the Government of the United Kingdom at that time, I don't think, gave the care and attention to deciding what the true nature of this patronage dividend was because the point was a mere bagatelle. When other countries, in the United States and Canada, and elsewhere in the world, came to evolve their own tax systems, they, I presume, looked at what had been done in the United Kingdom and incorporated that into their own taxation system.

In many cases, this resulted in a more significant distortion than existed in Great Britain; first of all, because of the fact in many countries it was double taxation of income and, secondly, because the co-operators themselves were very much different people from the consumer in Great Britain who belonged to the consumer co-operative.

I think, when you have regard to all the other systems throughout the world, you find that an exact comparison is always very difficult because the impact on corporate taxation is very often very much less than it is in Canada and the United States and the corporation may pay a great deal in tax, but it may pay it by a variety of means.

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It may be a turnover tax. As far as I know co-operatives in other countries, where there is a turnover tax, pay the turnover tax. Similarly, there may be a much greater proportion of income tax collected from real estate, or property, or capital levied. In all these situations, so far as I am aware, co-operatives are paying in exactly the same manner as their corresponding joint stock companies.

I should also bring out the point that in the United Kingdom there is certainly no provision for the deferment of payment and it is my understanding that this point was raised in the House of Commons on one occasion and the very definite answer was given by the then Chancellor of the Exchequer to the effect that the payment would only be allowed if it was paid in cash within a very short period. I can't recall the exact period but within, I think, the trading year of the co-operative.

MR. STEWART: Now, this brief of the Alberta Wheat Pool indicates that the American legislation is somewhat more complicated than the Canadian but, as I say, they give the impression that the treatment of co-operatives in Canada is not essentially different from that in the United States and there, of course, the treatment of corporate income is very similar to what it is in Canada. Can you comment on that situation?

MR. McKITCHAM: In this situation I certainly do not think we should use the United States as a model. If there is an injustice somewhere else, this is not a reason for perpetuating the injustice here.

MR. STEWART: I quite agree with you. I am not

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suggesting that we use any country as a model, but if it is the fact - and I am seeking knowledge here - if it is the fact that in other parts of the world the treatment of co-operatives for tax purposes is not dissimilar from the present Canadian treatment, then this may be a material fact.

MR. McKITCHAM: Yes, I think this may be a material fact and I think it is also a material fact that in most parts of the world co-operatives have a very potent political influence, and I do not think this can be ignored in assessing the application of tax to them.

MR. STEWART: You would not suggest it be ignored in Canada?

THE CHAIRMAN: Mr. Stewart, before you go on to a different subject, I think we might break. Are you through with that subject?

MR. STEWART: Yes.

THE CHAIRMAN: We will break for ten minutes.

--- Short Recess

MR. STEWART: Mr. Lamont, I would like to refer to a question which was put to your Association by the Commission by letter and it read this way, and I am reading now from page 9 of a letter that you wrote the Commission under date of August 20th, numbered paragraph 5. On that page the question was this:

"Would you be willing to say that the alleged superior competitive position of the pool companies would be removed if

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dividends of all corporations were permitted as deductions from corporate taxable income?"

Your reply to that question was this, and I read again from your letter:

"While our members would no doubt be happy to escape corporate taxation, we feel that under conditions as they exist any such solution would be subject to criticism as short-sighted and not in the best interests of the country as a whole."

I wonder if you would mind enlarging on that particular answer. Why, in substance, do you consider that the permitting of corporate dividends to be deductible would be short-sighted and not in the interests of the country as a whole?

MR. LAMONT: Well, as you are aware, we have a budgetary deficit this year of something like $600 million and possibly it may be much higher. In the last several years Canada has had budgetary deficits. We do know that the corporate income tax produces a very substantial amount of money; in the neighbourhood of one billion dollars or so.

We recognize that if Canada is to remain a stable country, we have to have revenue. We can't see how it would be possible to do away with the corporate income tax. True, we would like to see the rate of tax reduced, if it could be carried off in some other manner.

First, we recognize our bills have to be paid.

EE9 The nation's bills have to be paid and that we have to participate in paying them. We don't want to go on a wild goose chase and say, "Well, we will do away with the corporation tax," and at some future date the promise is made to do away with the corporation tax as long as we will leave co-operatives alone. We would like to see them participate in carrying on the cost of government.

MR. STEWART: If this particular measure were feasible as part of the overall change in our taxation system - in other words, if it were found feasible to tax not corporate income as such, but simply undistributed profits, would that not equate the position of the line companies more closely with that of the co-operatives?

MR. LAMONT: We don't see any basis on which you could reduce substantially corporate income tax. It may be very desirable but we don't see that it is possible.

MR. STEWART: You see, what I think we would all be interested in finding, Mr. Lamont, is some sort of compromise between the position of the line companies here and the position of the co-operatives. You people, as I understand it, are, at the moment, quite uncompromising. You say not only should Section 75 be repealed, but that the deduction in respect to patronage dividend should also be eliminated.

Now, I have no doubt that the various co-operatives who appear before this Commission will take exactly the opposite position. They will want to maintain what they have, with possible improvements. Your position is, no doubt, perfectly natural from your point of view. Theirs is, no doubt, equally natural from their point of

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view.

I take it, though, at the moment, you do not favour the deductibility of dividends from ordinary corporations, and that you are not putting forward any other possible compromise for the consideration of the Commission?

MR. LAMONT: Well, Mr. Chairman, the remark that we were uncompromising - I may say the Income Tax Department is very uncompromising with us. If we make a profit, we pay our taxes.

Now, we think that other people engaged in commercial enterprises should do the same thing. We are just ordinary businessmen. We are not economists. We do not see any other way, any other solution to this but that all people who make a profit, as long as there is an Income Tax Act, I think that they should participate in paying the cost of the Government the same as ordinary businesses.

MR. STEWART: Let me move, for a moment, to the general subject of pricing out, and I would like to deal with pricing out both generally and from the point of view of the grain trader.

Perhaps I should deal with the specific situation first: that is the position in the grain trade. Let us, in this regard, deal with wheat. Is it a fact that pricing out would be particularly difficult in the grain trade at the present time because of the fact that the cost of the storage of wheat is borne by the Canadian Wheat Board and that it is only some time after the wheat is delivered by the farmer that he receives his final

EE11 payment in respect of a particular year?

MR. LAMONT: In the first place the cost is not borne by the Wheat Board. The cost is - the first 178 million bushels is borne by the farmer through the Wheat Board and the Government pays the excess over 178 million bushels.

MR. STEWART: I should perhaps have been more particular in my question. Are the charges for the storage of 178 million bushels paid by the Wheat Board in the first instance, and does it recoup this cost when it makes - when it calculates and makes its final payment?

MR. LAMONT: It recoups this cost on the first 178 million bushels from the farmer - they make their initial payment, and then if they sell the grain above that figure, there is an interim and possibly a final payment and out of that they recoup their costs, the storage and other expenses.

MR. STEWART: In the grain trade at the present time I take it, from what you have said and what is in your brief, the only service which the pool companies render is the provision of storage?

MR. LAMONT: No. They accept the grain. They handle the grain from which they get a charge, which is precisely the same charge that we get.

COMMISSIONER WALLS: May I interrupt? You say they get the same charge as you do. Is it not a fact that the Wheat Board sets a maximum charge, I believe, of 5 cents a bushel, and that it is possible for any one of you to set a handling charge under that?

MR. LAMONT: The Wheat Board does not set the

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charge. The Board of Grain Examiners does.

COMMISSIONER WALLS: The Board of Grain Examiners sets a maximum charge?

MR. LAMONT: The Board of Grain Examiners sets a maximum tariff for the handling and storage of grain. Any company that so desires can handle under that maximum, as it is with all companies, pools, United Grain - all operate on the basis of actual charges. The maximum is also the minimum.

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I was just telling you the operations. You suggest they make money from storage - they make it from handling - if they have handling charges, receiving of the grain in the elevators, receiving it into the elevator and moving it out, cleaning, dockage - there may be a cleaning charge if the farmer wants the grain cleaned. Then you follow through to the terminal.

Now, once you get into the terminals it is an entirely different set of charges. There is a maximum in the terminal in the elevation of the grain, for the storage of the grain. The terminals will make money on the export movement, through the exporters. All of that is merged into this process. Farmers' grain that has gone out of the province, out of the western provinces - it is down at the Head of the Lakes or further down, or it might move out to the Pacific Coast, to Hudson's Bay, at the Head of the Lakes and at Vancouver.

The pools and ourselves receive terminal elevation. Some of them make a profit but that grain is already out of the farmer's hands. It is down there and they make a profit on it there.

MR. STEWART: Let me put my question this way: what proportion of what one of your companies makes in respect of a particular bushel of wheat - of your income in respect of a particular bushel of wheat is paid to you by the farmer who delivers that wheat to your elevators, and what proportion is paid by the Canadian Wheat Board? I mean, just roughly.

MR. LAMONT: Well, we will talk about wheat.

MR. STEWART: Yes.

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MR. LAMONT: That wheat must be delivered to the Canadian Wheat Board. They set the initial price. I believe it is $1.50 a bushel, and that grain is delivered to the elevator and the elevator agent issues a participating certificate to the farmer for the $1.50 less freight, and the freight is whatever it is to that particular point.

In connection with wheat they deduct $4\frac{1}{2}$ cents a bushel for the handling charge.

MR. STEWART: Maybe 10 cents of what you receive in respect of the particular bushel of wheat comes from the farmer in the sense there is a deduction from the $1.50.

MR. LAMONT: Well, no, part of it is to pay freight. That goes to the railway.

MR. STEWART: But it is paid by the farmer?

MR. LAMONT: It is paid by the farmer and then we get our $4\frac{1}{2}$ cents a bushel.

MR. STEWART: Now, then, how much revenue are you likely to receive in respect of a bushel of wheat from the Canadian Wheat Board?

MR. LAMONT: We get $4\frac{1}{2}$ cents.

MR. STEWART: That is the initial payment. I am not up ---

MR. LAMONT: Are you talking about storage?

MR. STEWART: Yes.

MR. LAMONT: Once the grain is in the elevator we start earning storage on it at one-thirtieth of one cent a bushel per day. That is paid by the Wheat Board when we deliver that grain.

MR. STEWART: When it goes to your terminal

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elevator you perform other services and are paid accordingly?

MR. LAMONT: The grain is elevated at the terminal, put in storage there. We receive an elevation charge, and then after five days we receive a storage charge. It depends on the amount of dockage of the grain whether we get a cleaning charge.

MR. STEWART: You take this initial 10 cents...

MR. LAMONT: That terminal charge is not paid by the farmer, but by the Wheat Board or the exporter.

MR. STEWART: That is right. There is the initial 10 cents that is paid by the farmer.

MR. LAMONT: Where is your 10 cents?

MR. STEWART: I say 10 cents because I understand that - if the current rate is $1.50 the farmer is subject to a couple of deductions; one in relation to transportation and one in relation to preliminary handling, something of that sort. It may not amount to 10 cents, but that is the figure that is in my mind.

I realize this varies from year to year, but, broadly speaking, is your revenue in respect of a particular bushel of wheat twice 10 cents, three times 10 cents; how does it work out?

MR. LAMONT: Our earnings per bushel?

MR. STEWART: I mean your income from the Canadian Wheat Board in respect of the bushel; your receipts from the Canadian Wheat Board.

MR. LAMONT: Four-and-a-half cents. We get terminal elevation charges - you get a new situation where the exporter is paying further charges. It is not

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the Wheat Board.

MR. STEWART: Let us take the Wheat Board and the exporter together.

MR. LAMONT: They will sell their grain at Fort William to the exporter, and that is an entirely new set of prices, a new source of revenue. Once you get your interest ---

MR. STEWART: It may not be possible, Mr. Lamont, to get a satisfactory answer to that question. Would you consider that the pricing-out process is peculiarly different in relation to wheat because of the existence ---

MR. LAMONT: What do you mean by "pricing out"?

MR. STEWART: I mean the process by which the co-operative reduces its income. In the case of a marketing co-operative, I take it that would be by paying its members more than the current market price, going market price, for their produce?

MR. LAMONT: That is an ordinary commercial risk that you have with any competitor. These 15 firms we list here, they are just as competitive one with the other as they are with the pool. At times I have seen it happen over the years where one company will lock horns with the other and it will be probably more than pricing out. This is an ordinary business risk. If a company decided it wanted to operate a lower scale of charges they would have to meet that situation.

I don't believe our people who have engaged in a risk capital business over the years would unduly worry whether it was co-operatives or whether it was an ordinary

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corporate competitor. There is as much danger from one as the other.

MR. STEWART: It seems to me the whole system of pricing out may be rendered more difficult in the grain trade at the present time because of the role which is played by the Canadian Wheat Board. Let us step away for a moment from the marketing of grain and deal with co-operatives in general. If the effect of your proposal - let me put it this way: if your proposal were adopted and deductibility of patronage dividends for tax purposes was repealed and the marketing co-operative outside the grain trade altogether decided that it was going to minimize its income, and that the only way of doing this would be to pay its suppliers not the going market price. not what up to that time had been the going market price, but something over and above that, would you consider that such a move on the part of the marketing co-operatives would be likely to cause harm?

MR. LAMONT: Well, I came across some very interesting figures from the Department of National Revenue, taxation statistics. It was this table of figures; I will give you just in the year 1960, which is the last one published. The Canadian Government had full information about taxes, profits and income on this many companies: 95,817. Of the companies above this many operated at a loss: 32,505.

In Canada today, of the companies operating 32,000 out of 95,000 operate at a loss. There must be quite a bit of pricing out going on right now. The gross sales or revenue of all the above companies amounted

FF5 to $59 billion. Profits for the year of all the above companies before taxes amounted to $2,795,000,000, so out of every dollar of gross sales or revenue here is what was left as profit before taxes: 4.7%.

Out of every dollar of gross sales or revenue here is what is left as profit after taxes: 2.8%. You will find a net income on investment of Canadian corporations of 2.8%. You are coming pretty close under the ordinary general capitalistic system to pricing out when you get down to 2.8%, so that I don't think I would worry too much about coming too much closer to the 2.8% because once one does they may be at a spot where there is a loss instead of a profit as 32,000 of these companies found in 1960.

MR. STEWART: Now, perhaps you are using 'pricing out' in a somewhat different sense that I am. Let me put
2 this to you: if there is a handling charge at the moment on wheat of 4½ cents a bushel, suppose this tax charge you are advocating comes into effect and some of the co-operatives would reduce that particular handling charge from 4½ cents to, perhaps, 3 cents. What would the effect of that be on the line companies?

MR. LAMONT: This is a competitive situation which we are quite prepared to meet, and which we have met. As a matter of fact, just prior to the Manitoba Royal Commission there was a little skirmish and the handling charges went to 1 cent. They only stayed there one year.

MR. STEWART: In the past the co-operatives have been buying and selling at going market prices.

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That is for reasons of their own which are no doubt well-known to people such as yourselves. If this were changed I am sure this would continue to apply, and I can't refrain from reminding you of the concluding paragraph of the first article which appears in the book with which I am sure you are familiar, Recent Growth in Canadian Co-operatives, which was published by the Canadian Tax Foundation in 1962.

Mr. McIvor, in the first article, is talking about recent developments in the co-operative field in Canada and in the last paragraph which appears on page 38 he starts off with a statement with which I am sure you would agree. Perhaps I had better read the paragraph:

"To conclude with a comment on Section 75(1), the prospect of amending or expunging its provisions is obviously not one which a Canadian government is likely to find inviting. There is nevertheless a very good case, on grounds of its effects upon equity, competitive advantage, efficiency in resource allocation and upon public revenue, for a re-examination and re-assessment of this particular piece of legislation. It is in fact discriminatory and its removal would represent neither the complete disaster (to the co-operatives) nor the complete solution (for the 'private' trade) that it is commonly held to represent.

What should give the 'private' sector of the economy serious pause is that, having achieved the elimination of this tax discrimination, they might well then face the prospect of the rapidly expanding co-operative movement having decided, quite legitimately, to commit

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itself, through 'pricing-out' methods, to a legally effective 'no-profit' basis of operation. In the light of its fundamental philosophy, could 'private' enterprise indefinitely survive?"

That is the end of the paragraph.

MR. LAMONT: Well, Mr. Chairman, I have a great deal of respect for Dr. McIvor. I think he made an excellent study there, but Dr. McIvor is an economist; he is not a businessman. I would say that this trade is quite prepared to meet any fair competition. We object to meeting this competition when we pay 52% of our profit to the Government and our competitor carrying on identically the same business gets away with paying less than 10%.

Just on this matter of pricing out, this is the official publication of the Albert Wheat Pool. This is for August 23rd, which is two or three days ago. The Alberta Pool has just gone into a new phase of business; the fertilizer department they have set up.

The Saskatchewan Wheat Pool has also gone into it. They are selling fertilizer, farm chemicals, pedigreed seed grains and twine. They are setting up a thousand new stores in Saskatchewan. This is what the Alberta Wheat Pool says about pricing in their official publication, the official statement which W.W. Wagler put out:

"The association fertilizer department has announced its policy of maintaining fair competitive prices uniform at all points in the province except for freight

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adjustments. The Pool will not take the lead in cutting prices, but it will be our intention to remain competitive. Price cutting is contrary to co-operative policy and we do not wish to engage in any price wars, but we will not sit idly by and see competitors take business from us through price cutting."

That sounds like good business sense, and I think it is the same as our people will think.

The thing that does worry us is this statement which was made by Mr. Fowler, H.L. Fowler, at that time President of the Federated Co-operatives and now President and General Manager of Inter-provincial Co-operatives which do a volume of business up in the good tens of millions; say, one hundred million dollars a year. He was speaking at the Manitoba Co-op Conference and it is reported in the Western Producer, which - they don't like the name official organ, but wholly-owned publication of the Saskatchewan Wheat Pool.

MR. STEWART: What is the date of the article?

MR. LAMONT: The date is November 1st, 1962:

"H.L. Fowler, President of the Federated Co-operatives, the first of four panel members to speak, looked at the future of co-operatives. He said that in the next 20 years, retail co-operatives should do at least 25% or 35% of the total business to provide goods used by humans. Some Scandinavian countries are doing that now.

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At present, retail co-ops in Canada are doing about 2% of this business."

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Well, Mr. Fowler is a very able businessman. I do not think this is an idle boast, and if they continue to have their present tax concessions, I would say that he will fulfil his forecast so that we do not fear pricing out. We fear this basis of taxation which gives our competitors an almost 50% edge over us.

MR. STEWART: Have you considered the extent that the sales of the co-operatives generally have increased over the years since these present tax measures were introduced?

MR. LAMONT: I am sure that you have had placed before you statistics on the growth of co-operatives. When we appeared before the McDougall Royal Commission in 1944, I believe then the volume of these co-operatives was 242 million; today it's 1½ billion. That is only one stage of the growth.

If you look at the credit unions, which are also escaping taxation, the growth is even more phenomenal.

MR. STEWART: My question was: has this growth been due to the tax situation solely or has it been due partly to that, perhaps, and partly to other factors; those which I have seen suggested being the importance, to some people, at any rate, of the co-operative philosophy, and also the fact that there is a suggestion that over the years the management of the co-operatives, by and large, has become more efficient?

MR. LAMONT: Well, just to take your last question first, about the management becoming more

efficient, I started in the grain business in 1924 with the Saskatchewan Co-operative Elevator Company and that company was originally managed by The Honourable C.A. Dunning, and later by F.W. Riddell. I would not put them second to anybody in the grain trade. That is over 30 years ago, 35 years ago. They were amongst the highest-paid men in the grain trade and among the most able men in the grain trade.

Now, I would not like to compare them too much, but they were just as able as anybody in the co-operative movement today so that when you look back, the co-operatives have had good and able men. Some of the very small co-operatives, where they can't pay the same wages, there may be less efficient management, but all in all, we have had good management and where they have carried on an efficient business, naturally their business will grow but they have had a very distinct advantage in their growth due to the fact they have been able to pay very high patronage dividends through the saving on taxes, and not paying interest on the capital invested.

The United Grain Growers, they have paid interest on their money, that they have secured from farmers but the wheat pools, they have had some $50 million of capital. $50 million of capital gives you a start of $3 million a year, then you save income tax and their earnings, in the case of the Saskatchewan Pool, ran as high as $7 million a year. Lately they have been totalling $10 to $11 million; you save another $5 to $6 million there. You can expand a lot with that tax saving, and you can pay a lot of tax dividends with that tax saving,

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and it has been responsible for the very rapid expansion that was pointed out very clearly in two of the annual reports of the United Grain Growers by their late President.

MR. STEWART: You refer to this in your brief. Thank you, Mr. Lamont. Those are all my questions.

THE CHAIRMAN: Thank you, Mr. Stewart. You have been very complete in your questioning, but even so, I suspect there may be one or two here. In fact, I have got one small one which I think will only take one or two minutes.

Would you be so kind, Mr. Lamont, as to turn to Table 6. Table 6 shows the elevators, which are pool elevators, and the total line and U.G.G. licensed elevators and indicates a trend which is an increase in the pool elevators, and a decline in the line elevators.

The attrition in the latter case does seem to proceed steadily, save only in one year, and that is 1958/59. Have you got the table which I am looking at; Table 6?

MR. LAMONT: Yes.

THE CHAIRMAN: In 1958/59 under the column marked 4, there is a figure, 3,365. The line following that drops to 3,119, a drop of some 246. Now, in the column marked 3 there is an increase of 236, which seems to be a very definite movement. So my question, Mr. Lamont, is: can you tell me if there is a special circumstance respecting that year or would an explanation of that illustrate the point of the schedule?

MR. LAMONT: The drop in the number of line

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elevators there was due to the sale of the Lake of the Woods and the Ogilvy Milling Company line of elevators to three pool organizations.

THE CHAIRMAN: I imagined there must be some explanation of that kind. In the other years there is a continuing switch from one to the other, as you indicate in your submission, and that is simply operation of competition, I assume, that has brought that about?

MR. LAMONT: You will see back some years ago there wasn't such a wide difference of percentages between elevators owned and business done, but that growth has - we run from the 41% which handle 53% of the business. This is wider than it was back prior to the 1948 legislation.

THE CHAIRMAN: One more question, Mr. Lamont: the transaction you referred to a minute ago, the sale of the 246 elevators, was that in any way brought about because of taxation?

MR. LAMONT: Well, Mr. C.D. Howe, who was then head of those companies, was a very astute man and he knew all about this tax situation. He had been told enough about it in Ottawa.

After he became head of that company, he didn't keep the elevator system very long.

THE CHAIRMAN: Thank you. Gentlemen, we don't seem to have any more questions here. Is there anything further you would like to say to us before we wind this up?

MR. LAMONT: No, Mr. Chairman. I believe our brief, which I am sorry to say is rather long - we felt

that we condensed it as much as we could - is what we have to say.

We appreciate very much the hearing which you have given us.

THE CHAIRMAN: Your brief was good reading, indeed. The discussion has been very helpful. We realize that we have got a long way to go in this matter. This search for when is a co-operative not a bona fide co-operative, or whatever we are looking for, is a difficult thing and we are seized with that difficulty and with the responsibility, and it is a sizeable job.

Thank you very much for your assistance here.

THE SECRETARY: There is just one brief I wish to enter into the record, Mr. Chairman. That is a brief received from Mr. L.C. Kindree, of Squamish, British Columbia, received here in Winnipeg after we left Vancouver. This will be Exhibit 192.

--- EXHIBIT NO. 192: Submission of Mr. L.C. Kindree.

THE CHAIRMAN: We will stand over until 9.30 tomorrow morning.

--- Adjournment

ROYAL COMMISSION

ON

TAXATION

HEARINGS

HELD AT
WINNIPEG
MAN.

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ROYAL COMMISSION ON TAXATION

Hearing held in Room 200,
Legislative Building,
Winnipeg, Manitoba, on the
29th day of August, 1963.

COMMISSION:

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TORONTO, ONTARIO

ROYAL COMMISSION ON TAXATION

HEARINGS HELD AT THE CITY OF WINNIPEG, MANITOBA

August 29, 1963

TOPICAL INDEX — VOLUME No. 47

ANGUS, STONEHOUSE & CO. LTD.
TORONTO, ONTARIO

Winnipeg, Manitoba.

Professor Clarence Lyle Barber

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--- On commencing at 9.30 a.m.

THE CHAIRMAN: Mr. Secretary, it is now 9.30. I think we should commence.

THE SECRETARY: The first brief this morning is submitted by Professor Clarence Lyle Barber of the University of Manitoba. Professor Barber is here to speak to his brief and I would like to enter it into the record as Exhibit 193.

--- EXHIBIT NO. 193: Submission of Professor Clarence Lyle Barber.

SUBMISSION OF PROFESSOR CLARENCE LYLE BARBER.

THE CHAIRMAN: Thank you, Mr. Secretary. Good morning, Professor Barber. It is very nice of you to come to see us today. We have read what you have said to us with a great deal of interest, and I might say for my part I have read it with considerable puzzlement. I have to learn more about this. For a long time I was under the impression that surpluses of business and individuals led to prosperity and deficits led to poverty. I am beginning to find out that rule does not apply to government whatsoever, and that surpluses are more apt to result in unemployment and deficits in inflation.

As you see, I am extremely ignorant, and as an accountant I am really horrified with the idea of having three sets of accounts for each government. It may be necessary, but I am afraid if we do we are going to have to have a new class of people to interpret all the

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accounts. I doubt if my profession is going to be competent to do that task although the younger generation may do a lot better at it.

With those remarks, Professor Barber, I think we will have a few questions for you, but before, is there anything you wish to say?

PROF. BARBER: Thank you very much, Mr. Chairman. I am very pleased to appear before you this morning. I would like to make one or two comments on my brief, and then I would be very glad to try and decrease the amount of puzzlement, if it is possible.

I would like to just say a word about national budgeting. It is a very well-known concept in economy, and as a matter of fact the concept of national budgeting seems to be adopted as a matter of course by many European countries. It is really a budget for the country as a whole, and in deciding what the Government should do in a particular year, what are the prospects for various private expenditures; you decide your budget in this light.

I am not saying the Government doesn't do this, anyway, at the present time. I think what happens is, a certain amount of national budgeting goes on behind the scenes, but since the figures are never brought out in the open no one knows what the Government budget is to the national budget.

There has been an economic unit, I know, in the Government, that has been forecasting ever since 1945 and 1946, but what use the Government makes of this data in preparing its budget is something I don't know. Just

A4

as a matter of interest, you may remember a little controversy about 1957 about some report which alleged that the economy was going into a down trend. This, I think, was an example of the national budgets that are being prepared and not, at the same time, being released.

I realize the difficulty in getting governments to commit themselves to actual forecasting and I think this difficulty might be gotten around if the new National Economic Council prepared a forecast of budgets and the Government would then state in terms of this prediction that has been presented to us by the National Economic Council, "We have now planned our budget thus and so on." I think that provision would avoid this particular difficulty.

I might say, also, that while economists always seem to be in the position of supporting deficits against the opposite view of the public it is not uniformly so, and I have quite a bit of sympathy for people who believe in balanced budgets because obviously these people are worried about continued raise in government expenditure and they look upon this as a method of control.

If government could be forced to tax in order to make up expenditures today this would be one method of keeping expenditures under control. However, observation would seem to show that it hasn't been a very effective control because government expenditures have been increasing by leaps and bounds and seem to be continuing to increase.

I think, perhaps, we might be much better off if we were able to look rationally at what are likely to

A5 be the effects of budgetary deficits and what are likely to be the effects of surplus and we could decide whether we have a deficit or surplus in a particular year in the light of the circumstances.

This brings me, perhaps, to the next major point in the brief, and this concerns the relationship between our dependence on foreign capital and the willingness in government at all levels to generate either surplus or deficit. I have found that there seems to be in Canada a rather wide and unthinking acceptance of the view that Canada should borrow on a substantial scale from other countries at this stage of its development.

I think Mr. Gordon used words almost to this effect in his last budget, and yet I haven't really seen anyone present very good evidence to support this position and it doesn't seem to me you can make too perfect a logical case for it.

Take this one point: Canada has now a per capita income second or third among all the countries in the world. If, on this basis, Canada can't afford to finance all its own capital expenditures, well, who can, other than the United States, you might ask.

To take another point: when they have to look at and decide on whether it is improper to borrow from other countries or not it is a question of how large a capital spending program is the country running. If we are trying to add to our capital at an extremely rapid rate, in those circumstances we may very well be justified in adding to what we can finance out of current savings by borrowing from other countries.

I think, in some degree, this was probably true back in 1956 and 1957. This is not true today. For example, in the first quarter of 1963, business capital spending had fallen to about 17% of the Gross National Product. This is the lowest level since about 1947 or 1948.

Back in 1949, the capital spending was somewhat higher in relation to National Product than it is today but we managed to generate an export surplus. We didn't, on balance, borrow from other countries at all. One further point I would like to make - and here I would like, if I may, to introduce a further exhibit. I have some tables here that make a comparison between the Canadian position and the position in a number of countries in Western Europe. Could I enter this as an exhibit?

THE SECRETARY: It will be Exhibit 194, Mr. Chairman.

--- EXHIBIT NO. 194: Table of international comparisons of capital expenditure and foreign borrowing for 1961.

PROF. BARBER: This table shows a comparison for the year 1961 between Canada and six other countries in Western Europe; these countries being the six who had the highest level of capital spending in relation to National Product than Canada did in that year: the countries of Austria, West Germany, Italy, Netherlands, Norway and Sweden.

You will notice, if you look at the righthand side of that table, only one of these countries had a

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balance of payment deficit. All of the others other than Austria were in balance. All of the others had a small or considerable balance of payment surplus. This would indicate only one country was, in fact, borrowing from other countries to help finance its capital expenditures; that country being Norway, and Norway, in that year, was running an extremely large capital spending program: 28.3% of its National Product.

This would suggest, even on the basis of international comparisons, it is difficult to justify the dependence on foreign capital that we have seen in Canada in recent years.

Now, I realize I haven't suggested anything very constructive about this problem. I pointed out the degree of government expenditures were now to such a high level that it may be very difficult to generate a government surplus and use government savings, indeed, to finance foreign investment. I would like to make one suggestion: at the moment the new government in Ottawa is promoting a pension program. I would like to suggest a contribution to that pension program which

2

can be regarded in some ways as equivalent to taxation, if they were varied by whatever amount would be necessary to raise the level of Canadian savings to the size needed to finance all or most of our capital expenditure program - in other words, when Canada could generate a capital investment boom you would raise the level of contributions to the pension fund and thus increase the rate of Canadian savings.

Then, I think, other times this would be the

method by which you could generate within Canada a great deal more real income, and this would be one device whereby you might really finance a pension program on a genuine basis. As things are proposed now the pension program amounts to a scheme for transferring income from one group of society to another; the younger working group to the older.

If you could make this scheme to increase the Canadian rate of saving in circumstances where the level of capital spending justify it, then you would find, over time, a larger amount of Canadian capital would be owned by Canadians; the income and dividends would be coming to Canadians and there would be a larger income fromwhich to finance the pension program.

Those are all the comments I wanted to make by way of elaboration. I would be very glad to answer any questions.

THE CHAIRMAN: Well, thank you, Professor. You have said a good deal and written a good deal and I think we will have some questions. I was really interested in this. In the first part of your remarks you spoke about national budgeting and a surplus and a deficit which meant there would be, I think, three times the surplus or deficit under what we spoke of, as the national surplus and deficit, the Government accounts, and the total, which, I think, is all government accounts on a cash basis.

PROF. BARBER: All government accounts, I think what we call the national accounts basis. The cash basis would be one where you included all borrowing and

A9

lending on a national account basis, base tax on an accrual basis and exclude all types of expenditures that don't affect, really, the current flow of income.

In other words, if the Government advances funds to the Central Housing and Mortgage Corporation this is looked upon as a transaction within the capital market but it is not something affecting the expenditures of income and the receipt of income.

THE CHAIRMAN: On that point I observe that other countries frequently have a surplus or deficit which they consider above line or below line; what is deducted below line is capital expenditure from above.

/MR/dpw

When one compares our accounts with those of other countries, one finds a very substantial difference as the result of the way we compute it at the present time. The other countries do not take in the full amount of expenditures, capital expenditures. Do you have regard to that in what you say?

PROF. BARBER: Not really, no. This is what sometimes is called a capital budget. This is really just a slightly different way of presenting the data. There are problems involved there; one of them being, for example, that no provision is usually made specifically for depreciation of government-owned capital. To just set aside all new Gross National expenditures in a separate budget is not making an allowance for the degree in which you are simply replacing capital that is wearing out. That would not give a correct budgetary picture.

What I am concerned about, I would prefer to stay away from this capital budget and simply think about the total government picture. Is the government, as a whole, and not making any distinction between what we call its current and capital expenditures, is the Government as a whole either generating a surplus or a deficit on what we call the income account?

THE CHAIRMAN: The income account is after all the Government expenditures have been charged, whether they be salaries or battleships or whatever they may be.

PROF. BARBER: Yes. Perhaps I just might make a further point on these figures on domestic capital formation. On this table which I have given they do not

B2 include any government capital, other than government business organizations. In other words, Manitoba Hydro expenditures would be treated as a capital expenditure. Other government buildings and highways, no. This is what is sometimes called business capital formation. This, I think, is pretty uniform for all countries.

THE CHAIRMAN: You have mentioned in passing, and I thought rather quickly, that we might draw certain conclusions from a surplus or a deficit and I was wondering what kind of conclusions that I, for instance, might draw; semi-educated people like myself who are not economists reading the Government statements, what conclusion, if any, can I draw as to surplus or deficits?

PROF. BARBER: It is my feeling that there is a need, I think, for a much clearer presentation of this whole picture on the part of government.

In other words, I would feel that the annual budget, the Government ought to try and explain these different concepts and indicate the meaning so that citizens and the Members of Parliament would be better able to judge what is the impact of this budget upon the country or what is likely to be its impact.

In practice, what seems to happen is that the newspapers will, perhaps catering to the wishes of the public, seize upon the budget that shows the largest deficit and this is the picture that gets presented usually. Frequently this is the cash budget. Some people say this is more significant than an administrative budget, presumably because the deficit appears larger.

B3

This is particularly true of Canada and the United States. Surprisingly, in Western Europe, you don't find nearly as much discussion or concern whether the Government is in a deficit position or not. For example, last Spring the United Kingdom Government made a tax cut which, in relation to the Canadian income, would have been equivalent to about $400 million here.

The London Economist had an editorial on this in which they referred to this as half-speed ahead, implying that the tax cut was much too small and in that entire editorial there wasn't any reference to the fact of whether the budget was in deficit or not.

THE CHAIRMAN: Do you suppose that Europeans generally are more prepared to leave these technical matters to the experts than are North Americans? I must say I am hoping that North Americans won't proceed to leave this alone.

PROF. BARBER: I am not sure that I know what the explanation is. It seems to be true both of the Continent and the United Kingdom. It may be that Western Europeans are much more prepared to accept whatever is necessary for their Government to get a high level of employment and force a rapid rate of growth.

Professor Tobin of Yale University, who was at a conference of economic planning sponsored by the C.B.C. last winter, he had been sent over by the Council of Economic Advisors to try and find out if Western Europe had any secrets to explain their more rapid rate of growth and he came back with the conclusion that they really did not have any secret gimmick. The only gimmick

B4 probably was that they were prepared to use monetary and fiscal policy much more ruthlessly, if you like, in order to achieve their goal, whereas here we were hamstrung by prejudice about balancing the budget and concern about what would happen if we increased the money supply too quickly.

THE CHAIRMAN: I don't think you really dealt with my question before, and perhaps it cannot be dealt with. What I am interested in knowing is what would be the ill effect to Canada of a substantial deficit in the forthcoming year; a deficit on administrative account, let us say. Perhaps you prefer to deal with a deficit on the cash account.

PROF. BARBER: If we had a substantial deficit, and it looks as though we will after all of the withdrawals of tax increases the final estimate, the administrative deficit was not down very much from the original estimate on the basis of no tax change. I think that perhaps even an increase in the administrative deficit, if it is justified, this would have raised the level of employment and income in Canada, given the fact that private capital spending has been so low recently and obviously needs some sort of stimulus.

I think here you have a problem: if the economy once gets working below capacity, business firms find they have a certain amount of idle capacity, they say, "Why should we spend more for capital equipment?" You still get a substantial volume of capital spending going on but business sort of holds back. If you could give the economy a push towards a higher level so that

B5 business firms found their capital facilities being fully utilized, they would be much more willing to go and add to their capacity and this would, of course, raise the whole level of capital spending.

Now this, as I understand it, is the whole philosophy behind the Kennedy administration, the philosophy of the tax cut. They believe that if you could just get the economy operating on a higher level, this business capital spending will increase and in the circumstances you may very well find that your tax revenues are increasing more than you anticipate and if the capital spending continues to build up, you may find that a year or two from now you are justified in raising taxes, and you can balance your budget.

Whereas, if you don't make the effort somehow or other to get the economy operating on a higher level, it may continue to crawl along and go a bit below the level of which it is capable.

THE CHAIRMAN: What is the limit on the size of push, or the size of a deficit? What would one notice if the push were too great or the deficit were too great?

PROF. BARBER: I think as the deficit increases, and sort of as the spending force increases you do, I suppose, at some point run a risk that prices may begin to rise, and so you have to accept some limits on inflation as opposed to lower level of unemployment. I would think that in the current circumstances of the Canadian economy, perhaps a longer run picture favours the suggestion that inflationary forces may not be particularly strong.

B6 I base this partly on the ground we are entering a period in which the labour force is going to increase much more rapidly than it has. This is the native-born, native force, now for a number of years, mainly because the people that will be coming into the labour force largely are those that were born after the war when birthrates were high, whereas, we have just been through a period when the entrants into the labour force have been people born in the 30's and early 40's when birthrates were much lower.

In a situation where you have a large number of new entrants to the labour force, these are situations in which the labour market is going to be very competitive, less sort of upward pressure on wages, and I would think given the fact that we are still in a position of substantial unemployment, substantial excess capacity, given a rapid growth in the labour force, that the inflation
2 would not need to be of primary concern for some time to come but this is really, in the final analysis, a question of judgment.

On the other hand, there isn't any doubt, in my mind, for example, that the austerity program introduced in the summer of 1962 - you look at the national accounts you can trace almost directly the effects on cost and expenditures and increased taxes in a fairly sharp slow-down in the Canadian economy.

THE CHAIRMAN: Are there any other ill effects that would emerge other than inflation as a result of increased deficits?

PROF. BARBER: Once you have a fixed exchange

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rate, you have to worry about your balance of payments even more than you do. When you have a free rate, you have got a freely flexible exchange rate, in large measure this will adjust for changes in price levels in your country relative to those elsewhere but even here I think the circumstances are not unfavourable at the moment. Wages and prices are going up much more rapidly in Western Europe than they are in North America generally and this, I think, is likely to continue partly because they are, in a way, in a somewhat opposite labour situation to Canada.

Their labour force is growing more slowly. They have sort of absorbed the large supply of excess labour that was available at the end of the war. So at a time when our labour market is becoming increasingly easier, more competitive, there has been a tightening up and I think that this is one of the major differences and I think, again, this would suggest that there is a fair amount of leeway for additional action to raise the level of income and employment within Canada.

THE CHAIRMAN: Thank you, Professor. I think somebody else would like to ask questions. I have got a lot more, and I will come back.

COMMISSIONER WALLS: You have just said that you think we are unduly concerned over deficit financing. Are you not equally unduly concerned, as many other Canadians, over our foreign indebtedness because I note from the figures on page 10 of your brief that we have foreign indebtedness of 5.1 billion, and it is now pretty close to 20 billion. Has this not, over the years, borne

B8 a direct relationship to our Gross National Product, and perhaps will continue in that relationship?

PROF. BARBER: Well, I think you might even find that in relation to the National Product our capital investment is lower now than it was in 1926. On the other hand, if you take simply the rate of growth, particularly since about 1953, if that rate of growth were to continue, you would find our foreign indebtedness would continue to rise.

In other words, while there was a long period when we were increasing our foreign debt, our National Product was growing. It has been growing pretty rapidly in the last five or six years. If this were to continue, I think we would get into trouble. We will get into trouble perhaps in terms of size of the interest and dividend payments we had to make on our balance of payments and the problem we might have in meeting that.

The wonders of compound interest always amaze me, really. There were stories that it was $27 paid for the Island of Manhattan. If it had been invested at 5%, you could buy it back. Well, the comparable problem exists, I think, in the balance of payment. These people have - people in other countries have a very large investment in Canada. This will continue almost automatically - a good deal of it - on the basis of the fact that they re-invest substantial amounts of their earnings.

It is also probably true that the value of this is seriously understated in the sense a lot of it has been in equities and appeared here maybe at lower prices. This is a book value rather than a current

B9 market value and currently it has been earning a fairly low rate of return; something like 3%, or something, annually provides an interest amounting to something in the order of 3% on the investment. If it went up 5 or 6 percent and this continued, I think you might very soon get into a pretty difficult balance of payment problem simply meeting the interest and dividend on the investment.

In other words, we would have to somehow generate enough exports in excess of our other imports to pay interest and dividend payments.

Certainly, it would create difficulties and what I am asking really is that there is an alternative - at least it was virtually a costless alternative:from about 1957 on if we had managed to divert spending away from imports to Canadian production, we couldhave increased the level of employment here, reduced the amount of foreign borrowing and been better off in the process.

COMMISSIONER WALLS: One other question on an entirely different basis than that was: it would seem to me that from your plan of federal budgeting that it would lead to the end of the Canadian practice of secrecy for budget presentation. I understand that that is the practice in some other countries in Europe. If so, what effect does it have on speculation of the money market and the stock market?

PROF. BARBER: I don't really see that there would be any harm in releasing this. This is a forecast, anyway, and lots of private people are making some forecast, and since the Federal Government simply tells the

B1Q

people that in terms of this picture we have now decided to increase taxes here and here and there, I don't see really any reason why that should be abandoned in terms of what I am thinking.

What I am suggesting is the time may have come when we ought to drop the concept of a budget just once a year, and think, perhaps, in terms of quarterly review of the picture; that perhaps the national budget was all right when the Government was spending about 10% of the National Product, but now that we have got - all governments were spending that amount - now, we have got to the stage where government spending is so large in relation to the National Product as sort of a dominating influence on the total picture, maybe we should take another look at our procedure. Perhaps have a main budget once a year and a quarterly review, introducing whatever revisions seem justified at the end of three months.

THE CHAIRMAN: You speak about difficulty in that connection. I was puzzled as to why there was difficulty. We get a peek at the national forecast once a year at the time the annual budget is presented. We get some forecast of an economic nature and more frequent forecasts would, I imagine, be fairly simple and are probably done now but it's just a matter as to whether it is brought to light; is that not the case?

PROF. BARBER: Well, I have recently had occasion to read through almost all the budget speeches from 1945 on, and I was struck by the sort of haphazard intermittent basis on which these were presented.

PB/dpw

They would seem to change from year to year, and one year they would include old-age security funds and another year they would put it another way, and sometimes write off deficit in the fund of the previous year and put it in the current budget and sometimes something else. Occasionally you would find out on what basis they were estimating revenues and sometimes you wouldn't. It just struck me that in terms of the way the budget was presented it suggested that the people preparing the budget, or certainly the Minister responsible may not be just too clear on what the proposal was going to be.

I mention one particular instance in my brief: in 1956 when Mr. Harris presented his budget the country forecast which had been issued earlier indicated one of the largest increases in capital spending recorded in Canadian history, but the budget brought down made small tax reductions and budgeted for a small surplus; didn't even mention the size of the capital forecast. I just have a feeling there is no - that if government were required to present its picture much more systematically this would then enable the public to examine it much more critically, but it might also force them to think through the whole problem somewhat more clearly than they seem to have been doing in recent years.

COMMISSIONER WALLS: Do you believe that we would increase our exports to any considerable extent by further devaluation of the dollar, and where do you stop?

PROF. BARBER: Well, the effects, I think, of

C2 devaluation tend to take quite a while to show up and it is rather difficult to judge. It may be that the present level of the dollar in the long run will gradually create balance of payment deficit and will be sufficient. It is difficult to know how much of the gain will come from a reduction in imports because manufacturers now find they can manufacture components in Canada that they formerly imported, and how much will come from additional exports.

I know, for example, for a while there was a very extensive devaluation of sterling and other currency that took place in 1949. For some time the economists were arguing that it had little beneficial effect but gradually it seemed to greatly improve the position of these countries and now we have the reverse where the United States has the balance of payment problem and these other countries all have a pretty strong position, so I think that - and I have never had the time or the opportunity to examine the data in sufficient detail to give an informed estimate - I don't think you could look at the exchange rate and say because it comes down from $1.07 to 92½ this is is nearly low enough. It may be or may not be; I don't know.

COMMISSIONER BEAUVAIS: Do you believe, Professor, that the devaluation of the dollar creates inflation?

PROF. BARBER: I have been struck by the fact that even though the value of the Canadian dollar in the course of two years came down from a premium of 3 or

4 percent to a discount of $7\frac{1}{2}\%$ on the U.S. dollar, over that period the price level in Canada really didn't rise very much more than it did in the United States. I would really have expected some effects. Perhaps we are seeing some additional price raise, and, of course, this might be a delayed effect. I think, inevitably, if the exchange rate moves that much you have to adjust to some degree to the fact that import prices are now going to be higher than export prices.

There are adjustments but it doesn't produce continuing inflation. It can produce temporary adjustment in price levels. The indication in Canada is much less than you expect. I think, for example, that is because we import raw materials rather than finished goods and food stuffs.

COMMISSIONER BEAUVAIS: As far as imports are concerned, of course, we have to pay more for them.

PROF. BARBER: Oh, yes, but it is surprising how little of this has showed up really at the final consumer level.

COMMISSIONER GRANT: With reference to deficit financing, would your concern or lack of concern with deficit financing be influenced purely by whether or not capital borrowing could be restricted to Canada or if we had to go outside of our borders?

PROF. BARBER: Well, in this sense that I would argue - I have argued, I think, that there is a relationship between the size of the overall capital investment program and whether the Government on balance might justifiably run deficits or surpluses. I have

C4 argued that the total capital spending program is considered large so that it is difficult to finance it all through Canadian savings it would justify having the Government - we should encourage the Government to run surplus and finance the additional portion. I am not quite sure that is what you are thinking of. If you are thinking of the circumstances, say, back in 1960, when we were running a fairly large deficit, we were also borrowing extensively in other countries.

I think we could borrow, and could borrow more in Canada. The provinces and municipalities would have if we had reduced the interest rate level. This was within our power. You say how does this produce additional savings. I think the answer is that there was a great deal of slack in the Canadian economy at the time, and the effect would have been the additional savings that came from the income that is created putting these people back to work.

From the standpoint of financing or financing power, if the bonds - if the Bank of Canada had eased up on its monetary policy, provided additional reserves for the chartered banks they would have bought the bonds and I am sure the provinces would have been very happy to borrow in Canada if they didn't have to pay at least 1% more in interest.

COMMISSIONER GRANT: You feel that the money is present in this country to take care of government borrowing needs? In other words, the money is here; they don't have to go elsewhere for it. They go elsewhere because they can get it cheaper.

05 PROF. BARBER: I think that is broadly the picture of the period from 1958 to 1961.

COMMISSIONER GRANT: You would advocate the Bank of Canada should regulate the interest on its loans to the chartered banks to the extent that it would stimulate government's borrowing?

PROF. BARBER: Well, this, I think, has been true generally. It is a question of degree, isn't it? In some periods the banks have been very large buyers of government bonds and other periods when demands for loans have been very active they sold some off and were mainly going into loans. I think if you want to discuss particularly what happened in this period, I think what did happen was the whole conversion loan operation which was the program for which there was really no precedent - I am sure there never had been a conversion operation in the bond market of this size in any country that I know of anywhere, so really there was no basis for judging what the result would be.

I think, somehow, this had the effect of raising the whole interest rate structure in Canada and it was this that then forced or encouraged a lot of our people to borrow in the U.S. instead of in Canada.

What I am saying, is that I think that if the Bank of Canada wanted to it could have offset this inevitable effect of the conversion loan by creating additional bank reserves, increasing money supply. I don't think the problem was wholly appreciated at the time and it didn't do this so we had this rather unfortunate experience.

C6

COMMISSIONER GRANT: When the Bank of Canada exercises its power in this country do you think it is influenced more through the dangers of inflation than need be?

PROF. BARBER: Well, I think that certainly Mr. Coyne was unduly concerned about inflation. I think part of the problem was he wasn't properly appreciative of what was happening at the time. Mr. Coyne recently in defending his policy in this period pointed out the money supply in Canada increased just as fast as it did in the U.S., therefore, in his eyes, he seemed to be pursuing a fairly easy money policy. "How can you criticize me? I have been increasing it just as fast as it was in the U.S."

I think the crux was probably the U.S. didn't have a conversion loan and Canada did and the Bank of Canada didn't really understand the impact of this policy on the bond market and try and offset it.

COMMISSIONER GRANT: However, that refers to deficit financing: as these deficits pile up year after year they would carry charges through - as far as the Federal Government is concerned, through interest payments, and I suppose that you are not unduly concerned as far as those interest returns from the money paid to Canadians, but it is when they go out of the country they add to the imbalance of trade.

PROF. BARBER: Yes.

COMMISSIONER GRANT: Would you advocate that the Federal Government should fund its debt? I don't believe it does in circumstances such as we are meeting

today.

PROF. BARBER: I am not quite sure what you mean by funding its debt.

COMMISSIONER GRANT: Do you think that when the Federal Government borrows money that it should set aside a certain amount in a sinking fund to repay that issue on its maturity?

PROF. BARBER: No, I don't really see any particular advantage in this approach, really.

COMMISSIONER GRANT: You would agree that the Provincial Governments on the whole do this, and the municipalities do that?

PROF. BARBER: They are in somewhat a different position in that they don't have available to them, for example, the monetary powers of the Federal Government, or the interest rate powers. In regard to the interest policies I think, really, this has to be charged in relation to national income just as our national indebtedness does. You will find that the national debt and the interest policy is much smaller now in relation to the National Product that it was in 1945.

A well-known American economist, Paul Samuelson, is fond of quoting from Macaulay in the early 19th century. He states many critics of the British national debt were always predicting national ruin, but the debt continued to grow and the economy continued to grow. The people that predicted ruin forgot that the economy grew along with the debt.

He contends in the heyday of Britain's greatness, the 19th century, the British Government had a

C8 deficit two years out of every three years because the economy was growing so rapidly at the end of the 19th century the debt was smaller in relation to the income than in the beginning.

I think the debt has to be judged, really, particularly in a country where income is growing with some degree of speed, has to be judged almost entirely relative to the National Product and national income.

COMMISSIONER GRANT: I take it the idea of having funded debt so far as the Federal Government is concerned, that its greatest effect would be in establishing confidence in the strength of the Government, in the strength of the country abroad, if there is any lack of confidence.

PROF. BARBER: I would doubt, really, whether there is. It seems to me that confidence is much more likely to be judged on the basis of how rapidly Canada is growing than on whether the Canadian Government has a deficit or not.

If the Canadian Government balanced its budget and the Canadian economy stagnates, this isn't going to do very much for the confidence of people in other countries. Particularly I am surprised at this argument being advanced when we recognize in Western Europe the people there are not concerned about government deficits anyway and these are some of the investors, presumably, we are talking about.

COMMISSIONER GRANT: Yes.

PROF. BARBER: It is true in the United States. Their attitude seems to be somewhat similar to that in

C9 Canada towards deficits.

COMMISSIONER GRANT: We are led to believe through the press that there is a lack of confidence on the part of foreign investors in Canada because of the continued budget deficits.

PROF. BARBER: Yes, although I have seen no evidence that is true.

COMMISSIONER PERRY: Mr. Barber, I just want to get back to your suggestions for the annual form of budget presentation. I don't really feel, and probably you will agree that anything you have suggested is revolutionary. I have been mixed up enough myself in it and I know all these elements are taken into account. There is certainly a national accounts forecast. There is a loan cash position forecast, which isn't as elaborate as you would suggest here, and there has always been the administration budget.

Even now there is very little argument about the general shape of the budget, that sort of thing. Conservative organizations continue year after year, continue to propose we have a deficit in the federal budget, so that I take it what you are looking for is more precision, more direct and recognized effort in the direction of a well-determined budget.

This is what bothers me a bit: I think it is fair to say a lot of economists don't agree that the forecasting progress has been accurate. The Minister of Finance does an annual striptease to which most company presidents wouldn't be subjected. Your proposal, in fact, is rather admittedly that with improved tools

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here we have a Minister of Finance erect with these tools what becomes not just a budget for his own government, but for all governments in the country and for the economy as a whole; not only do that in the confines of his inner sanctum, but as an official pronouncement in the House of Commons.

Do you think we are really ready for that?

PROF. BARBER: Well, I have suggested an alternative; that the National Economic Council should prepare the forecast and I think probably this is something it ought to do anyway, and then the Government could accept this and discuss its proposals in the light of them.

What I think concerns me a little is the - for example, in the whole budget debate last Spring there was no mention of the current position of the national accounts budget.

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Here it was showing a deficit of only $164 million on an annual basis. As of the first quarter of 1963 everyone was talking about the need to eliminate a deficit of $700 million. There is a pretty large discrepancy here and this ought to have been discussed and put before the House and proposals justified in the light of this, and yet there was no reference made to it.

COMMISSIONER PERRY: There is a problem of education here, and I think I agree with you that governments have almost given up making the attempt because you would recall, sir, having read the budget in the post-war period, or immediately after the war, at any rate, there was quite an attempt being made to propound the ideas, and, in fact, quite an attempt was being made to carry them out.

The obscurity that you detect was largely dictated by the political process. This may be the necessary price that has to be borne for achieving anything at all.

To get down to practical matters, you suggest that this forecast be made quarterly and revised quarterly. Did you have in mind this would apply to quarterly corrective action as well in the fiscal area?

PROF. BARBER: Well, I would think perhaps only occasionally, but in some circumstances it might. I would see no harm in having the Minister of Finance make a review in which he would report to the House quarterly; what developments were in the light of these, and if he thought that things were satisfactory, but if

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things seemed to be moving considerably out of line to what had been proposed originally - to go back to one of the early periods, for example, after the Korean War broke out we had a budget in the Fall, I think about August-September, and there were some changes made in that. There were some pretty major changes, fairly major, moving towards a tightening up of the whole budgetary position, and more contractionary position.

By the time these changes were made most of the inflation had run its course. In periods when things are moving fairly quickly, if you wait six months or a year it may be too late to change anything, or to take any action.

COMMISSIONER PERRY: This partly reflects still adequate information as to what has just happened.

PROF. BARBER: Yes, it is true that our knowledge is improving constantly. We are in a very much better position today than we were 10 years ago. Seasonally-adjusted quarterly figures are very recent.

COMMISSIONER PERRY: You think that the political apparatus, the institutional apparatus, would permit - assuming it were required - quarterly adjustment in the cash position of the Government?

PROF. BARBER: Well, I haven't really studied this in detail. I have seen proposals somewhat along these lines. In the United States there is a suggestion certain basic taxes could be adjusted fairly quickly. The level of deductions now in income tax could be revised; certain basic rates could be changed. This is not a general change.

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COMMISSIONER PERRY: The tax machinery is fairly flexible but the apparatus for approval of the changes, the authorization for the changes is not. Parliament is usually quite jealous of its prerogatives in this field; this field of all fields.

PROF. BARBER: Yes, but you would agree, I think, that we probably could get changes through much more quickly here than we could, say, in the United States.

COMMISSIONER PERRY: I agree on that. This is comparing black and white. There is a practical problem here, I think, both in the currency of the data and in the slowness by which the machinery now operates for bringing in changes. That is all I had on this first point.

THE CHAIRMAN: The next point I want to deal with concerns capital expenditures.

COMMISSIONER PERRY: One hardly knows where to begin or end on this subject. I must say I am little bit skeptical of just working on the aggregates in any economy. Having a substantial budget surplus in this country is not going to have much effect on the direct investment of foreign firms. Probably is not going to have much effect on take-over bids by foreign firms. Without a great deal of education in the process of investment it may not even have much effect on the domestic equity formation, equity accumulation.

PROF. BARBER: The question of control over Canadian industries, the question of the extent to which Canadian savings finance current investment are separate

D4 questions and I was not, in my proposal, envisaging any limitation on inflow of capital. I think that you can achieve volume of capital inflow to a very considerable degree through monetary policy, and it would be perfectly consistent for Canadian saving on balance to be equal to our capital spending program and still have a substantial inflow of direct capital, and perhaps a corresponding outflow of portfolio investment induced through monetary policy.

If Canadians did want to control more of their own industry, this, of course, is another question. I am sure you probably could devise methods which would encourage more savings to go into equity.

Some of our large savings institutions might be induced to put more of the funds - the savings of Canadians into equity position, but these, as I see it, are somewhat separate questions and I was not dealing here with the question of control and take-overs.

COMMISSIONER PERRY: There are factors in the balance of payment which seem to be independent of Canadians savings.

PROF. BARBER: But you would not deny that in the period from 1947 to 1952, when we were generating a substantial government surplus, that on balance we financed about 90% of our capital expenditures out of our own resources. Whereas, in the period from 1958 to 1961 this had fallen to about 40%.

COMMISSIONER PERRY: Oh, I agree, but direct investment was not nearly as important at that time as it is now.

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PROF. BARBER: It has fluctuated. I think if you want to cut down the volume of direct investment, I suppose the most effective direct way would simply be to raise the withholding tax from 15 to 20 percent and say, "While we welcome foreign investment, we do not guarantee the degree to which they are going to be able to withdraw from the country."

COMMISSIONER PERRY: It is hard to tell whether that would have the result or not. It might mean money would be left here which otherwise would have gone out.

PROF. BARBER: Yes.

COMMISSIONER PERRY: I think all I am saying is that all you have done is perhaps given the economy the slant which, if a lot of other things were done, might produce the result you hope for.

PROF. BARBER: Yes. It is a complicated problem but I do think that there was quite a lot of borrowing made in the United States that would not have been made there under other circumstances.

I happen to know of a small finance company, in the period 1958 to 1962, or so, went into debt for - I don't know how many million dollars - $10 or $15 million. These funds were borrowed from banks in the United States because the banks in Canada would not lend it to him. He didn't want to borrow in the United States.

There must be all sorts of these cases. If you maintain a high interest rate level in Canada, you are going to encourage quite a few funds to come in that would not come in otherwise, and the net result will be

D6 that quite a lot of capital in Canada is foreign-owned when it might otherwise have been Canadian.

COMMISSIONER GRANT: That must have been expensive borrowing because there was quite a premium in effect at that time.

PROF. BARBER: Yes, although 1% interest differential - I think I have pointed out, for example, if you can save 1% on the face value of a 30-year loan, you have saved 30% of the face value over the lifetime of the loan.

COMMISSIONER GRANT: Except the banks would not give you this long a term.

PROF. BARBER: No. One percent differential - if you maintain the debt continuously it will offset the cost pretty considerably in such depreciation; more, I think, than people generally realize.

THE CHAIRMAN: Professor, with regard to the schedule which you put before us, which indicates that of the countries listed Canadian capital formation is

2 the lowest, I think I would note that it may be larger than that of the United States ---

PROF. BARBER: I have only listed the countries which had a higher rate than Canada, deliberately.

THE CHAIRMAN: That is what I wanted you to say. Would you say that that is a fair rate, the capital formation in Canada, or would you say it is a good rate?

PROF. BARBER: I would say that was a fairly good rate. It is much higher than it is today, when it is down in the order of 18%, perhaps.

THE CHAIRMAN: Do you think there is anything

D7 that should be done by way of tax policy in order to encourage an increased rate of capital formation in Canada?

PROF. BARBER: Well, I would think that given the degree to which it has fallen from previous levels, that something along the line of an investment incentive through tax policy would be desirable.

The last budget contains some incentive, but for the most part they were so restricted and hedged about that their application, I don't think, is going to be wide enough to add up to a great deal - this applied to areas of slower growth of manufacturing firms, of which more than 25% was - I have forgotten, but a certain percent was Canadian-controlled, anyway - anyway, the general incentives were so hedged about that it did not look to me like they were going to be of sufficient importance.

I think it would be better to have something along the line of the investment credit originally proposed by the Kennedy administration two years ago, and adopted, I think in modified form, by Congress whereby you simply offered all business firms a flat investment credit so it could apply to increase in their level of capital spending over the level of three recent years and this is a credit in addition to ordinary depreciation, so 10% of the increase in their capital spending,or 20%, or whatever you choose - I think sort of a sweeping, wide-range credit of this kind would provide some relief from the corporate income tax and that would tie that relief directly to

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incentive to spend more on capital equipment.

THE CHAIRMAN: For a short time this country had such a credit, as you refer to it. The U.S. tax program distributes this tax reduction as between producers and consumers, so as to stimulate both production expenditures and also expenditure on consumer goods.

Should a similar program in Canada be distributed, do you think, between the two or should emphasis be given more to the one than the other?

PROF. BARBER: Well, I would think that as far as tax relief at the corporate level, I would prefer to see this limited to the type of relief I have spoken of; something along the line of investment. I think to consider a reduction in corporate income tax - a pretty large proportion of that goes to the benefit of foreign stockholders and the ultimate effect upon the Canadian economy may be somewhat doubtful.

I think it is also fair to point out that the U.S. tax structure is considerably different from Canada's in this degree: we rely to a large degree on sales taxes, although I don't know whether this is fundamental in answering your question. Even though their present income tax rates may not be so very much higher than ours, they derive a great deal more revenue from that simply because the average per capita income is about, say, one-third higher. If our per capita income was one-third higher, our present personal income tax rates would generate a great deal more revenue because everybody would move up to a higher tax bracket

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and it is surprising to me the difference - I have forgotten the figures, but the figures that run in my mind are the Canadian personal income tax yields revenue of something like 8% of the national income, whereas the U.S. yields something around 13%. The difference is very surprising.

THE CHAIRMAN: There are many questions I have concerned with your conclusions. Is there anything before the conclusion that anybody wants to comment on?

COMMISSIONER PERRY: I would just like to ask what significance you attach to capital expenditure as such? Is it, in your view, mainly as an offset to short-term cyclical movement or does this have still as much significance for long-term growth as it was thought to have at one time, or do you visualize there are other factors involved there as well?

PROF. BARBER: Well, the growth, I think, is a complex phenomena and probably - there have been a number of studies of this recently trying to assess how much of it is due to technical innovation, how much is due to additional capital and how much is due to additional education, and I think the results of these studies tend to suggest that the addition of capital is perhaps less important than it once was, though it is still pretty important and it is important, I think, also, in the sense that frequently the new capital incorporates new technical advances so the two tend to go hand-in-hand.

There is no doubt in my mind that if you, for example, look at a farm, the way it is operated today,

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and the way it was operated when I was a boy, that much of the increased productivity is reflected directly to the increased amount of capital that is used by the average farm worker, so I think capital investment is still very important, not only from the standpoint of maintaining a high level of employment, but also with reference to the weight of economic growth.

THE CHAIRMAN: You suggest, Professor Barber, in paragraph 21, that if we wish to curtail borrowing abroad, we should have regard to great care in future expenditures in health and welfare.

It would seem to me that whether the Government shouldered the burden of our health and welfare expenditures, or the private sector does, we are going to have a pretty substantial future expenditure in this area. I would not think that that is a very hopeful place to seek resources to avoid foreign borrowing. Would you have any alternative if that cannot be achieved?

PROF. BARBER: Well, I would not argue that you could not have a large health and welfare expenditure and also generate government surplus as well. Germany seems to be in the position of a country that does to some degree both.

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/PB/RPS

I think and still would argue that our Health and Welfare Programme has been one that has sort of been adopted piecemeal. It is as if a number of salesmen have come along and sold a newly married couple, bit by bit a lot of very big major purchases, a nice new automobile, and they had paid nothing, expensive refrigerator, expensive television set -- the only difference between the political huckster is that they sell something for which the payments are perpetual and they end up having bought -- they find out when they do get all the things that they need, having got them one at a time, they are all a little larger than they can afford. This seems to me not unlike the way we have adopted our Health and Welfare Programme. We started out in 1941 with Unemployment Insurance; 1944 Family Allowance Programme and we set this Act on quite a generous scale, and next I suppose was Old Age Pension and Hospitalization. Now we have a contributory pension and medical care just over the horizon.

My suggestion really is that maybe it is time that the government took sort of a hard look at the thing as a whole and saw whether there are not certain economies that may be made in some of these programmes in exchange for increases elsewhere. To make a specific proposal the British when they adopted the single programme, the Beveridge scheme, they found that they were financing something on this scale and that one of the areas they felt they could economize in was family allowance. They economized here by not

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paying any family allowance for the first or second child of the family. The result was that families say with only one child or two children got no family allowance at all. You might argue that these people could more reasonably afford it. It then went on for families of three, four and five and so on, children, they paid them on perhaps a little more generous scale. This is the sort of proposal which can generate a large saving. You may argue politically it is difficult to take something back once created, but I wonder if that is true. If you are introducing a programme which would provide for paying medical care for all children maybe the people would be willing to give up something elsewhere. In other words if the thing were done as a package deal you might possibly to able to effect economies in certain areas.

THE CHAIRMAN: Thank you, Professor. I would be delighted to argue, but not now, on this subject. I must say it interests me greatly. Our job here is to try and bring out your views, and I use argument only when it is necessary to do that. You suggested that the contribution to the proposed pension plan might be related to planned expenditure of capital assets, and then finance capital assets within the country. While, of course, there is merit in more or less a pay-as-you-go plan, which you have in mind, I wonder whether it wouldn't add to unemployment because it would seem to me if we were planning to increase capital assets, we would probably be doing so because of the results of unemployment, and therefore, if one related it to the

E3 pension plan one would, in fact offset the benefits which one would hope to achieve by reducing unemployment.

PROFESSOR BARBER: I think perhaps you have misunderstood me. I think really it's a problem of generating a government surplus, large enough to finance capital expenditure, and I assume capital expenditure is going to increase again and go back up to the 22 or 23 per cent of gross national product, so that it will be substantially larger than private Canadian savings can finance. I think what I was saying is you need more access for the Government to generate the surplus. There is no reason why you can't just raise taxes and say we are going to have a surplus to finance it. I was just suggesting politically maybe one way in which you could solve this was to have the contribution to the fund in proportion with the economy.

THE CHAIRMAN: Thank you.

PROF. BARBER: And perhaps lower it when the capital spending builds up.

THE CHAIRMAN: I clearly misunderstood your point. Thank you very much. I have no further questions. You have helped me greatly, and I suspect that you certainly interested all of us. We clearly have got to know more of the economics of the country and the position of taxation in our national accounts and national economy. You have assisted us greatly to that end. Thank you very much indeed. We will stand over for five minutes.

---A SHORT RECESS.

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THE SECRETARY: The next brief is being presented by the Retail Merchants' Assodation of Canada (Manitoba) Incorporated. Mr. H.A. Carmichael, president of the Manitoba division is before you to speak to the brief. On his left is M.M. Wocks, provincial general manager and Mr. A.G. Smellie, director of the Manitoba division. I would like to enter this into the record as Exhibit 195.

---EXHIBIT NO. 195: Submission of the Retail Merchants' Association of Canada (Manitoba) Incorporated.

SUBMISSION OF THE RETAIL MERCHANTS' ASSOCIATION OF CANADA (MANITOBA) INCORPORATED

APPEARANCES: Mr. H.A. Carmichael
Mr. A.G. Smellie
Mr. M.M. Wocks

THE CHAIRMAN: Thank you, Mr. Secretary. Good morning Mr. Carmichael and gentlemen. I am sorry we are late getting to this. I hope you enjoyed the discussion before. I know you were in the room. We did. I am sorry you were held up. We have read your submission with considerable interest. Before going into that is there anything you would like to say to us?

MR. CARMICHAEL: Mr. Chairman, and members of the Commission we are, of course, very happy to appear before you this morning. We know this is the final day of your hearings in Manitoba. I had the pleasure of being here on Monday morning at the commencement of these hearings.

E51 I believe Mr. Wright of the Chamber of Commerce at that time expressed the hope that your stay in Winnipeg would be both informative and enjoyable. I have been reading the press releases since that date and it would indicate his hopes as expressed to you have been borne out. I would hope that the conclusion of this morning would carry on in the same manner.

I also note that the surface layout of the hearing room is much less formal than it was on Monday morning. After hearing the submission of Professor Barber and hearing the questions that you have put forth, this informality has in no way lessened the keenness of your individual and assembled minds.

The Secretary has introduced we three. I would like to continue at this time with an opening statement pertaining to the brief which you have before you.

"I am a small businessman residing "in Portage la Prairie where I operate an "Independent Retail Men's Wear Store. It is "my honour to appear before you today as the "President of the Retail Merchants' Assoc-"iation of Canada (Manitoba) Inc.

"None of we three before you lay claim "to expert knowledge in the field of taxation. "We are ordinary businessmen presenting a case "for equal taxation and fair competition. "As businessmen we are speaking for a large "number of people who have, for many years, "borne the brunt of unfair competition from

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"co-operatives.

"This brief has received the approval "of our Board of Directors and we have been "assisted in its preparation by our National "Office Co-ordinating Committee on Taxation. "We will endeavour to answer your questions "to the best of our ability, although "it may be necessary to refer some items to our "Dominion Association for reply.

"It will be observed that our submission "does not challenge the right of the "Co-operative Movement to an integral part "in our business and commercial life but we are "vitally concerned with its comparative "freedom from taxation when competing directly "with other businesses engaged in the marketing "of the same or similar products and which "are subjected to severe taxation.

"It is difficult to conceive wherein "lies the equity of one business being called "upon to bear its share of the National "Tax burden while a direct competitor is not "called upon to assume any similar responsibility "and while at the same time one and all "receive from the government the same identical "benefits of public service and public security.

"The tax favoured treatment of co-operat- "ives cannot be satisfactorily justified by the "claim they are a different form of business "and that the function of co-operatives is

E7 "commonly misunderstood by ordinary businessmen. "Nor can it be defended by the statement "that co-operatives supplement 'private' "enterprise when it fails to perform "adequately by itself.

"These contentions are invalid. "There can be no misunderstanding among ordinary "businessmen about the fierce competition "of tax-favoured co-operatives. It is conceded "that co-operatives earn profits which they "choose to call 'savings'. They distribute "these profits in the form of allocation "of tax deductible patronage dividends: the "recipients of these patronage dividends are "the members of the co-operative and the members "of the co-operative are also its shareholders. "These patronage dividends are described "by co-operatives as 'Price Adjustments' or "returns of 'Overcharges' to members.

"Our submission deals specifically "with the 'Price Adjustment' theory and concludes, "as recent economic studies have concluded, "that patronage dividends are not substant- "ially akin or even similar to bona fide "price adjustments; to the contrary, they are "earnings of co-operatives distributed as profit "to members in much the same manner as earings "of a shareholder company distributed as "profit, after payment of Income Tax, to the "company's shareholders.

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"There is one aspect of this co-operative "taxation controversy that should receive "the careful consideration of the Commission. "Ownership of countless business concerns "in Canada, including those in the distrib- "utive industries, is distributed among "scores of thousands of individual Canadian "citizens, by way of investments, employee "pension funds and retirement savings plans. "All of these people have invested their "savings in these businesses in the firm "conviction that they could meet their "competitors on a fair and even footing. Extreme- "ly high taxation is being borne without "protest as a responsibility of citizenship "in bearing a share of the cost of government "and providing an ever-increasing range "of social benefits. None of these citizens "have ever, at any time, contemplated "that it would be possible for them or for "anyone else to carry on a business and then "at the end of the year instead of paying half "the profit in Income Tax, simply split the "amount of the tax among themselves, call it "'savings' and be all tax free. This "is exactly the situation permitted by our "Income Tax Laws, in the case of Consumer "Co-operatives whose patronage dividends "are untaxable in the hands of member recipients. "The taken amount of tax normally paid by the

E9 "Consumer Co-operative is the only tax paid "on its earnings.

"We do not dispute the role of "co-operatives in the economic organization "of our society but we do believe that they "should maintain their position through effic- "iency and not through a tax subsidy. If "co-operatives must have tax subsidies to exist, "then they must be a less efficient "method of production and distribution than "their counterpart, the ordinary fully-taxed "corporation. Furthermore, we think it "is wrong for the government to aid "any business or industry by granting a tax con- "cession to only that part which happens "to be constituted in a certain manner and "conducts its affairs according to a certain "plan.

"In seeking equality in the taxation "of co-operatives and the removal of competitive "inequities we are convinced that co-operatives "are no longer in need (if ever there were "a need) of their special tax privileges "to exist and flourish. They can prosper with "equal taxation at least to the same extent as "their fully-taxed business competitors.

"On the question of Federal and "Provincial Sales Taxes we would inform the "Commission that these subjects are presently "the topics of study and investigation by our

"Dominion Association. It would therefore "by premature for us to attempt a general dis- "cussion on sales tax at this time. However, "we have no hesitation in presenting you with "a brief outline of our provincial association "policy.

"Federal Sales Tax.

"We are not in favour of proposals which "have been put forward for changing the base "to the level at which retailers purchase. "This would, of course, involve the "Wholesaling Industry in licensing and "multiply tremendously the number of "businesses required to collect and account "for the tax to the federal government. We "can foresee numerous problems and the pros- "pect of inequities arising out of the "variable levels at which retailers buy "(Manufacturer, Distributor, Wholesaler) and "the price atwhich they buy having regard for "quantity and terms.

"On the basis of present information "we would not support the proposition to move "the base of the federal sales tax to the Retail "level thereby making retailers accountable "for the tax.

"Provincial Retail Sales Tax.

"We are aware of the speculation in "some places that a Retail Sales Tax in Manitoba "may ultimately become necessary. As a matter

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"of policy we are opposed to such a tax until "such time as it is completely unavoidable. "Retailers dislike this form of taxation which "requires them to become the tax collecting "agents of the provincial treasury. Consider- "able expense attaches to the Retailer with "this form of taxation as he must compute the "tax on each taxable transaction, collect it "and install new accounting procedures and "sometimes additional staff to account for the "tax to the government.

"In any event, faced with the prospect "of a Provincial Retail Sales Tax in Manitoba "the Association would take the position that "the rate of tax should be low, not more than "2%, to avoid the otherwise sharp increase "in prices. We would advocate that the tax "be based on the sale of all commodities with "no exemptions and that the tax extend to the "rapidly growing service industry.

"In this way our recommendation for a "minimum rate of sales tax could be achieved "and the governments' revenue objectives "accomplished.

"<u>Indirect Sales Tax</u>.

"It would require a constitutional "amendment for the provinces to invade the "field of Indirect Taxation. We are firmly "opposed to hidden taxation especially "when it has the effect of increasing consumer

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"prices. We believe that such a tax would "not, in fact, become hidden without drastic "legislation which would be fundamentally "undesirable and would create a storm of "protest if proposed.

"We in the retail industry would "be severely critical of an Indirect Retail Sales "Tax which is often termed a 'Turnover' Tax. "In reality such a sales tax is imposed, "technically, upon the vendor of goods and is "essentially a levy on the retailer for the "privilege of doing business at retail. Under "this system the amount of tax liability would "be measured by the sales, or gross receipts "from sales, of taxable goods during the "period. Such a system, therefore, places "the legal incidence of the tax on the "shoulders of the retailer, whereas under the "direct form of Retail Sales Tax the incidence "is on the purchaser and the retailer is "simply the tax collecting agent for the prov- "ince. Finally we consider hidden taxes at the "retail sales level as undesirable.

"All of which is respectfully submitted."

"Retail Merchants Association of Canada
"(Manitoba) Inc.
"Harvey A. Carmichael, President."

MR/RPS

THE CHAIRMAN: Thank you Mr. Carmichael. Dealing with the opening statement first, this is not a summary of your submission but these remarks concerning your submission, and other material to your submission do not, I believe, deal with this matter of sales tax. Am I correct? We, of course, are interested in receiving your views on sales tax and we very much regret that you did not put them in your submission in the first instance because then we would feel we could explore them a little more fully with you.

Now that you have brought it forward, of course, we will ask you questions about them as they are concerned with Federal taxation. I think you are well aware that our terms of reference do not permit us to recommend in respect of Provincial laws and there is not very much that we will have to say about Provincial and retail sales taxes.

MR. CARMICHAEL: This is just a situation that could be coming up and facing us in Manitoba, Mr. Chairman, and perhaps the Provincial aspects of that should have been -- we would like to air our views on this, as we feel it is a very important -- could be very important to the retail industry in Manitoba.

THE CHAIRMAN: I haven't any doubt about that whatsoever. Please do not submit this to us and rely on us in any way/to aid you. You must make your representation to the proper place in regard to that.

I think perhaps we might deal with sales taxes before we get into the main submission but it only

F2 appears on the summary. Now I am interested in your opposition to a change in the basis of sales taxes. This, I think, is the first time we have heard this but certainly I can understand your opposition to removal of Federal sales tax to the retail level, if there is no Provincial sales tax because it means a new imposition on the retailers which they do not now suffer.

If there were a Provincial sales tax, I suggest that your view might alter. You would then have machinery at work. The difficulties of the sales tax at the manufacturing level have been represented to us already as being fairly extreme in several areas, not from the point of view of the retailers as much as it is others, particularly domestic manufacturers. Its only merit, that I think is generally conceded with regard to the Federal sales tax on the manufacturing level, is the ease of collection. There are few collection points but would you say that your opposition to the change is essentially because of the difficulty of collection?

MR. CARMICHAEL: Of course this is true isn't it? This imposition of -- we are speaking now of a sales tax.

THE CHAIRMAN: Should the Federal Tax be imposed at the retail level? You state that you would be opposed to that. I asked you whether your opposition is based on the difficulty of collecting the Federal sales tax at the retail level.

MR. CARMICHAEL: Yes, but we are also involved here are we not Mr. Chairman with this idea of a turnover

F3 tax. Now is this -- can you separate these or is this not involved with this idea of getting the tax down to the retail level?

THE CHAIRMAN: The first question I was putting to you was at the retail level and perhaps I did not make myself clear as to what I mean. A tax imposed upon the consumer, collected by the retailer would be a direct tax upon the purchaser, not on the retailer, which is a practice generally I believe in other Provinces with regard to Provincial taxes, but I speak only of Federal taxes in this matter.

MR. CARMICHAEL: Of course, as an Association Mr. Chairman we are opposed to acting as tax collectors for the Province. Very definitely.

As a matter of fact, sir, for your information we have recently conducted a survey among a good many of our Manitoba retailers, putting before them various proposals on action that perhaps we should take as an Association in the event that this might come into effect and very definitely 85 per cent of the replies that we had were in favour of the Retail Merchants Association, you might say fighting to the hilt.

THE CHAIRMAN: Against a Provincial tax?

MR. CARMICHAEL: Against a Provincial tax.

THE CHAIRMAN: Thank you. The second complete sentence on page 5 says:

"We can foresee numerous problems and the
"prospect of inequities arising out of the
"variable levels at which retailers buy and
"the price at which they buy having regard

F4 "for quantity and terms."

This relates to a transfer from the present level to the level at which the retailers buy their goods. Would you care to enlarge on that? There are grave inequities arising under the present system. Perhaps there would also be grave inequities under such a proposal. I would like to hear more about them, if you care to elaborate.

MR. CARMICHAEL: I think that is a very pertinent question, Mr. Chairman. Well, of course, as Mr. Wocles just mentioned, certainly the more people from whom the Government must collect this tax, there is more expense involved in collecting it and I think perhaps this is a reference to procedure, a more complex procedure that would be necessary in collecting the tax.

THE CHAIRMAN: The tax is now collected from the manufacturers and licensed wholesalers. Under such a proposal taxes would then be collected from manufacturers licensed and unlicensed wholesalers. There would be more people involved. It wouldn't be a tax collected from the retailers but it is the level at which the retailers purchase it.

MR. CARMICHAEL: Yes, that is true.

THE CHAIRMAN: Certainly it would increase the number of collectors involved.

COMMISSIONER WALES: I would like to go back to your objection to a direct retail sales tax. That is a tax that you would charge to your customers. Now I note that in this Province you have no experience with provincial

F5 retail sales taxes.

MR. CARMICHAEL: That is right.

COMMISSIONER WALLS: But if you had the same practice as prevails in other Provinces where they pay you for this service, I believe it is as high as 3 per cent in some Provinces, would you then have the same objection if you were paid a fee for collecting a Federal retail sales tax?

MR. CARMICHAEL: Mr. Wocles would you answer Mr. Walls on that?

MR. WOCLES: It is quite true that they pay 3 per cent to the retailer. At the University of Utah some years ago, I imagine you men are familiar with the study, they made a study of the cost of collection of the retail sales tax and it runs from just slightly under two per cent on food to as high as 12 per cent in a variety store. It varies for different classes of business, the cost of collection, so that in a hardware store I believe it was 10 per cent. I am not just sure but it was 12 per cent in a variety store. We will use that figure. The cost of the sales tax was two per cent, he is going to have to raise his price another 10 per cent to get his money back. So it is not a two per cent sales tax but the cost of collecting that tax to the store, or to the retailer is -- there was quite an involved study by the University of Utah. We have the book in our office as a matter of fact.

COMMISSIONER WALLS: Of course, in quoting three per cent, I was only quoting what was paid by some Provincial governments. Let's put it on the basis of no

F6 fixed amount; provided that you are paid a reasonable collection cost would you have any objection to then having a Federal retail sales tax?

MR. CARMICHAEL: Of course Mr. Walls regardless of the consideration for collecting fees, if you want to call it that, it still involves more bookkeeping. This is just one more thing the retailer is required to do, if this is forced upon him.

MR. SMELLIE: We represent a great many types of retailers, some of them -- a great many of them in our rural part of the Province are uneducated. This possibility of having to be collecting for the Government puts them in a position where they can't keep track of the money they owe the Government and they are in trouble all the time.

COMMISSIONER WALLS: Not having had a retail sales tax in this Province on what would you base that argument? Has your organization carried out a study in other Provinces who have a sales tax as to the difficulties that the merchants are having in keeping the Government money separate from their own?

MR. SMELLIE: Yes. Also we have learned that many times when the Government inspector goes around and says to this merchant you paid so much tax and should have paid so much more and we want a cheque for it now, that it is impossible for that small merchant to give him the cheque that he wants. I don't know what they do F2 in that instance.

THE CHAIRMAN: The other matter with which we are concerned, and to which you refer is, of course,

F7 the matter of co-operatives and you deal with that fairly extensively in this submission which we have already received and which we have had the opportunity of reading and examining. I think I would like to start at Paragraph 23, page 8 and you refer there to the true agency type of co-operative which seems to have beenintroduced in 1930, I think it was. These provisions were entered into the Act in 1930 to distinguish the true agency type. I am not quite sure what the true agency type is and I don't understand what that means.

MR. CARMICHAEL: Well you may correct me if I am wrong on this, but I would think the agency type of co-op was the getting together of people in producing in primary agriculture, for example, and marketing through an agency or through a central point. In other words I think the original concept or provision of this was not so much consumer as it was along this line.

THE CHAIRMAN: I was curious as to that. I understood you people were primarily concerned with consumer co-ops. They are the ones who you feel influence others.

MR. CARMICHAEL: This is direct competition, in our view, yes.

THE CHAIRMAN: When you refer to the basic co-ops, which I see mentioned at the bottom of page 11, I thought in that connection you were referring to consumer co-ops. They were consumer co-ops, is that not correct? Therefore, when you speak of the true agency type, I thought you were referring to the true agency type of consumer co-ops but that is not so and I was curious

F8

as to when and how a consumer co-operative performs as a true agency.

MR. CARMICHAEL: I think this is a very pertinent question sir. I must confess that I am not in a position to answer that at the moment. If we may make a note of that particular question and get you the answer.

THE CHAIRMAN: Yes. My question is going to lead in this direction: namely, that if there were at one time two agency types of consumer co-operatives, what happened when they ceased to be true agencies? What was the change in the inherent nature of the co-op which moved it away from the true agency? Where is the difference between the true agency and the trader, and I am not very clear as to what the true difference is? Where it occurred and just how it occurred.

MR. SMELLIE: We will get an answer to that question for you.

THE CHAIRMAN: Thank you very much.

COMMISSIONER WALLS: Just one question that I would like to get straightened for the record. In Paragraph 19 you are dealing with the increased size of the competition that co-operatives give, and you gave a figure of one and a half billion. Now as you are dealing primarily with the competition of consumer co-operatives, that figure is representing all co-operatives, am I not correct?

MR. CARMICHAEL: I think that is a total annual sales volume.

COMMISSIONER WALLS: For all types of co-operatives.

F9 I think you will find that your consumer co-operative is about three hundred and eighty-eight million, and not one and a half billion.

MR. CARMICHAEL: It is a total figure but I think Mr. Walls that this was referred to to simply indicate the growth which has come about.

COMMISSIONER WALLS: I am not depreciating your argument. I just wanted to clarify that it represents the amount of retail co-operatives.

MR. CARMICHAEL: I am awfully glad you brought that up actually because in submitting this brief it really is on the premise of equitable taxation, and I believe that in a brief that was submitted to you in Alberta there was reference made to the effect that this one and a half billion is just pretty small potatoes, but it is really secondary and apart from it. Our case must rest on the fact that we believe in this tax in equity.

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THE CHAIRMAN: We know the general proposal already. We have heard it a few times, but we are looking for assistance in every direction. It is a difficult problem. Turning to page 16, Paragraph 45 you refer to the "price adjustment theory". This is referring to the phrase we hear so often called "pricing out".

MR. CARMICHAEL: Yes.

THE CHAIRMAN: Now, would you not feel that if the consumer co-operatives were subject to taxation they would be inclined to reduce their prices so as to avoid making a profit and thus avoid paying taxes?

MR. CARMICHAEL: In that event, Mr. Chairman, my observation is this, that they wouldn't be very long in business.

THE CHAIRMAN: Let me rephrase my question.

MR. CARMICHAEL: Yes, sir.

THE CHAIRMAN: Would it not follow that they might reduce their prices to a point where they would eliminate their profits and not incur a loss. Nobody goes out of business today by not making a profit, or not usually do people go out of business for that. They go out of business because they incur losses. Could they not control prices to a point where they could avoid a loss but not make a profit?

MR. CARMICHAEL: Mr. Chairman, I would foresee in the event that this would come about, one of the enticements to join a co-op is the idea of owning share capital, of sharing in the fruits of the operations to the extent that the patronage applies, and so on.

G2 This has actually happened. Mind you, you are well aware of how they split the pie, and that most of the pieces remain in their own treasury, so to speak, and if it was such -- if the consumer co-op operated on the basis of sort of selling out, so to speak, or cutting their profit, which we still maintain is a profit, very low, then there would be very small dividends, wouldn't there, and it is then, in that event , perhaps the thinking person wouldn't be as inclined, perhaps as he might be now to join.

THE CHAIRMAN: So, in fact, your Association really have no fear of the danger of price reduction as a result of these people being subject to taxation.

MR. CARMICHAEL: I would say not, sir.

MR. SMELLIE: I think, sir, that one of the things that would occur if they cut prices is that their expansion would be halted to a considerable extent because they would have to sell shares to more members in order to stay where they have been. There are a great number of independent retailers who would like to expand but haven't got the capital to do so.

THE CHAIRMAN: Well, in your submission there are two points of great concern: One, the nature of the difference between the true agency type of co-operative and the other which you have a note of, and this matter of what would be the result of taxation. You have answered that, you are not concerned. I don't think we have got any more questions from this end. Have you anything further you would like to say to us?

MR. CARMICHAEL: No, sir, I think not. Thank

G3 you very much for hearing us.

THE CHAIRMAN: We on our part thank you very much indeed for bringing this to us and for answering our questions and if there is anything further you wish to send us we would be very glad to receive it. It is nice of you to greet us.

I must say we have enjoyed the hearings in Winnipeg. They have been stimulating and interesting to us. I said at the beginning I fully expected this part of the world would provide us with some ideas and it has gone a great deal beyond my expectations. Thank you, gentlemen, for appearing today.

Mr. Secretary, do you have something further?

THE SECRETARY: I have two briefs to enter into the record, Mr. Chairman. One is received from St. John's, Newfoundland, since we arrived from Thomas J. Hammet, 19 Market Square, St. John's, Newfoundland. I would like to enter this into the record as Exhibit 196.

---EXHIBIT NO. 196: Submission of Mr. Thomas J. Hammet, 19 Market Square, St. John's, Newfoundland..

THE SECRETARY: The second brief was delivered here. It is by Mr. R.B. Cantlie of Winnipeg, Manitoba. You haven't seen this brief as yet. It will be distributed. I would like to enter it into the record as Exhibit No. 197.

G4 ---EXHIBIT NO. 197: Submission of Mr. R.B. Cantlie, Winnipeg, Manitoba.

THE CHAIRMAN: This hearing is concluded and we meet again on October 3rd in Ottawa. Thank you very much.

---ADJOURNMENT.